



QUARTERHILL INC.

2024 Annual Report

Table of Contents

1	Management's Discussion & Analysis
22	Management's Report
23	Auditor's Report
28	Consolidated Financial Statements
32	Notes to Financial Statements
80	Directors and Officers
81	Corporate Information



Quarterhill Inc.

Management's Discussion and Analysis
For the three months and year ended December 31, 2024 and 2023

March 17, 2025

CONTENTS

CONTENTS.....2

INTRODUCTION.....3

FOURTH QUARTER 2024 HIGHLIGHTS4

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS5

NON-IFRS FINANCIAL MEASURES AND NON-IFRS RATIOS.....6

DESCRIPTION OF OUR BUSINESS.....7

OVERALL PERFORMANCE9

SELECTED CONSOLIDATED ANNUAL AND QUARTERLY RESULTS.....13

CAPITAL AND LIQUIDITY.....14

CONTRACTUAL OBLIGATIONS.....15

OUTSTANDING COMMON SHARE DATA.....15

OFF-BALANCE SHEET ARRANGEMENTS16

RELATED PARTY TRANSACTIONS16

PROPOSED TRANSACTIONS.....16

CRITICAL ESTIMATES.....16

FUTURE ACCOUNTING PRONOUNCEMENTS.....17

RISKS AND UNCERTAINTIES.....18

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING20

INTRODUCTION

This Management's Discussion and Analysis of Quarterhill Inc. (this "MD&A") is dated March 17, 2025. References in this MD&A to "Quarterhill", "the Company", "we", "us" and "our" refer to Quarterhill Inc. and its consolidated subsidiaries during the periods presented, unless the context requires otherwise. References to "Common Shares" in this MD&A refer to common shares in the capital of Quarterhill. References to "Convertible Debentures" in this MD&A refer to Quarterhill's 6.0% Convertible Unsecured Subordinated Debentures due October 30, 2026.

The Common Shares and Convertible Debentures are listed under the symbols "QTRH" and "QTRH.DB" respectively on the Toronto Stock Exchange (the "TSX") and the Common Shares are listed on the United States OTCQX Best Market (the "OTCQX") under the symbol "QTRHF".

Quarterhill is a growth-oriented Canadian company operating in the intelligent transportation system ("ITS") industry. We are a global leader in ITS that manages attractive technology companies in the intelligent transportation systems industry and its adjacent markets.

This MD&A provides information for the three months and year ended December 31, 2024 and up to and including March 17, 2025. This MD&A should be read in conjunction with Quarterhill's consolidated financial statements ("financial statements") and the notes thereto for the year ended December 31, 2024, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Unless otherwise indicated, all financial information in this MD&A is reported in thousands of United States ("U.S.") dollars, except for Common Share and loss per share data which is reported in number of Common Shares and U.S. dollars, respectively. The tables and charts included in this document form an integral part of this MD&A.

This MD&A has been prepared with reference to National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and our Annual Information Form for the year ended December 31, 2024 (our "AIF"), is available online at www.sedarplus.ca and also on our website at www.Quarterhill.com.

Quarterhill and our operating subsidiaries operate in ever-changing business and competitive economic environments that expose us to a number of risks and uncertainties, many of which are discussed under the heading "Risks and Uncertainties" in this MD&A and under the heading "Risk Factors" in our AIF available online at www.sedarplus.ca.

Our management is responsible for establishing appropriate information systems, procedures and controls to ensure that all financial information disclosed externally, including in this MD&A, and used internally by us, is complete and reliable. These procedures include the review and approval of our financial statements and associated information, including this MD&A, first by our management's Disclosure Committee, then by the Audit Committee of our Board of Directors (the "Board") and, finally, by our Board as a whole.

FOURTH QUARTER 2024 HIGHLIGHTS

Business Performance and Future Business Developments

Revenues for the three months and year ended December 31, 2024 were \$38,876 and \$153,305 compared to \$42,961 and \$143,987 in the comparative prior year periods, respectively. The increase in revenue is primarily driven by stronger performance in our North American tolling and enforcement revenue streams.

During the three months and year ended December 31, 2024, through our wholly owned subsidiaries, we announced new customer contracts worth approximately \$3.4 million and \$20.7 million, respectively. The customer contracts announced for the fourth quarter included system upgrades and maintenance services for electronic screening and virtual weigh station sites.

During the three months ended December 31, 2024, the Company's subsidiary International Road Dynamic Inc. ("IRD") sold its 50% interest in Xuzhou-PAT Control Technologies Limited ("XPCT"), to its former joint venture partner, for gross proceeds of \$4,810 (34,761 yuan). As a result of the sale, we realized gross cash proceeds of \$4,386, for a gain of \$708.

Change in Presentation Currency

Effective January 1, 2023, we changed the presentation currency of our financial statements to United States ("US") dollars, the functional currency of Quarterhill. A significant proportion of the Company's sales, expenses, assets and liabilities are denominated in U.S. dollars. The change in presentation currency represents a voluntary change in accounting policy. The Company has applied the presentation currency change retrospectively, in accordance with the guidance in IAS 8 "Account Policies, Changes in Accounting Estimates and Errors". All periods presented in the consolidated financial statements have been translated into the new presentation currency, in accordance with the guidance in IAS 21 "The Effects of Changes in Foreign Exchange Rates".

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information within the meaning of Canadian securities laws, including such statements relating to:

- assumptions and expectations described in our critical accounting policies and estimates;
- our expectation regarding the adoption and impact of certain accounting pronouncements;
- our expectation regarding the growth rates of our subsidiaries' businesses;
- our estimates regarding our effective tax rate;
- our expectations regarding our ability to acquire additional businesses to further our growth; and
- our expectations with respect to the sufficiency of our financial resources.

The words "expect", "anticipate", "estimate", "may", "will", "should", "would", "intend", "believe", "plan", "continue", "project", "could", the negatives of these words or other variations on these words, comparable terms and similar expressions are intended to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information are based on estimates and assumptions made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate in the circumstances. With respect to forward-looking statements contained herein, we have made assumptions regarding, but not limited to: our ability to execute on our business plan; successful integration of acquisitions; general economic and industry trends; operating assumptions relating to our operations; demand for our products and services; cost estimates for fixed price contracts; and the other assumptions set forth in our AIF available at www.sedarplus.ca. There are numerous material risk factors that could cause actual results to differ materially from the forward-looking information, including those discussed under the heading "Risks and Uncertainties" in this MD&A and under the heading "Risk Factors" in our AIF available at www.sedarplus.ca.

Quarterhill's actual results could differ materially from those anticipated in the forward-looking statements, as a result of numerous known and unknown risks and uncertainties and other factors including, but not limited to: changes in demand for our products and services; general economic, political, market and business conditions, including fluctuations in interest rates, foreign exchange rates, stock market volatility; the impacts of tariffs or other economic sanctions imposed; reliance on key management personnel; risks related to competition and technological advances; litigation risks; cyber-security risks; fixed price contracts may result in unexpected costs; risks of health epidemics, pandemics and similar outbreaks; and the other risks set forth in our AIF available at www.sedarplus.ca.

We provide forward-looking statements and forward-looking information to assist external stakeholders in understanding our management's expectations and plans relating to the future as of the date of this MD&A and such statements and information may not be appropriate for any other purposes. The forward-looking statements and forward-looking information in this MD&A are made as of the date of this MD&A only. Readers are cautioned that the foregoing lists of important factors are not exhaustive, and they should not unduly rely on the forward-looking statements included herein. We have no intention and undertake no obligation to update or revise any forward-looking statements or forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

NON-IFRS FINANCIAL MEASURES AND NON-IFRS RATIOS

Non-IFRS Financial Measures and Non-IFRS Ratios

Quarterhill uses both IFRS and certain non-IFRS financial measures to assess performance. Non-IFRS financial measures are financial measures disclosed by a company that (a) depict historical or expected future financial performance, financial position or cash flow of a company, (b) with respect to their composition, exclude amounts that are included in, or include amounts that are excluded from the composition of the most directly comparable financial measure disclosed in the primary financial statements of the company, (c) are not disclosed in the financial statements of the company and (d) are not a ratio, fraction, percentage or similar representation. Non-IFRS ratios are financial measures disclosed by a company that are in the form of a ratio, fraction, percentage or similar representation that has a non-IFRS financial measure as one or more of its components, and that are not disclosed in the financial statements of the Company.

These non-IFRS financial measures and non-IFRS ratios are not standardized financial measures under IFRS, and, therefore, are unlikely to be comparable to similar financial measures presented by other companies. Management believes these non-IFRS financial measures and non-IFRS ratios provide transparent and useful supplemental information to help investors evaluate our financial performance, financial condition, and liquidity using the same measures as management. These non-IFRS financial measures and non-IFRS ratios should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with IFRS.

Adjusted EBITDA - Non-IFRS Financial Measure

In this MD&A, we use the non-IFRS financial measure “Adjusted EBITDA” to mean net income (loss) adjusted for (i) income taxes, (ii) finance expense or income; (iii) amortization and impairment of intangibles; (iv) other charges and other one-time items; (v) depreciation of right-of-use assets and property, plant and equipment; (vi) stock-based compensation; (vii) foreign exchange (gain) loss; (viii) other income which includes equity in earnings from joint ventures; (ix) dividends received from joint ventures; and (x) changes in fair value of derivative liability. Adjusted EBITDA is used by our management to assess our normalized cash generated. Adjusted EBITDA is also a performance measure that may be used by investors to analyze the cash generated by Quarterhill. Adjusted EBITDA should not be interpreted as an alternative to net income (loss) and cash flows from operations as determined in accordance with IFRS or as a measure of liquidity. The most directly comparable IFRS financial measure is Net income (loss). See the Reconciliation of Net Income (Loss) to Adjusted EBITDA within the Overall Performance section of this MD&A.

Adjusted EBITDA per share – Non-IFRS ratio

Adjusted EBITDA per share is calculated as Adjusted EBITDA divided by the basic weighted average of Common Shares. Adjusted EBITDA per share is used by our management and investors to analyze cash generated by Quarterhill on a per share basis. The most directly comparable IFRS measure is earnings per share.

Adjusted Working Capital - Non-IFRS Financial Measure

Adjusted Working Capital is calculated as current assets minus current liabilities, adjusted for convertible debentures and derivative liability. Adjusted Working Capital reflects our net working capital expected to be settled in cash within 12 months. The most directly comparable IFRS measure is working capital.

Supplementary Financial Measures

Supplementary financial measures are financial measures disclosed by a company that (a) are, or are intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of a company (b) are not disclosed in the financial statements of the company, (c) are not non-IFRS financial measures, and (d) are not non-IFRS ratios.

Key supplementary measures disclosed in this MD&A are as follows:

Gross margin %

Calculated as gross profit as a percentage of revenue.

Working capital

Calculated as total current assets minus total current liabilities.

DESCRIPTION OF OUR BUSINESS

Quarterhill is a disciplined manager and acquirer of established ITS companies. Our goal is to pursue both organic and inorganic growth that capitalizes on attractive market trends in the ITS industry and its adjacent markets. Additionally, in appropriate circumstances, we may also divest certain assets if favourable conditions for such a divestiture are presented.

Strategy

We are focusing our business on building a consistently profitable company through the management and growth of companies in the ITS industry and its adjacent markets.

We believe that if we increase the share of our revenue derived from recurring sources we will also increase the predictability of our revenues and cash flows. This will allow us to better scale our operations to ensure we meet our strategic mandate of operating profitably regardless of the prevailing economic market conditions as we grow both organically and through acquisitions. In appropriate circumstances, we may also divest certain assets if favourable conditions for such a divestiture are presented.

Our existing businesses are fully described in more detail in our AIF.

Our Business

Our businesses are focused on enhancing safety, mobility, efficiency and environmental performance across road and other transportation infrastructure by providing ITS, products, solutions and services. Based on market research, we believe the global ITS industry is expected to exceed \$70 billion by 2029¹, influenced by major driving factors such as infrastructure spending, public safety, traffic congestion, smart city development and environmental impact. We believe that we are well positioned to capitalize on these trends.

Our businesses are leading providers of essential ITS products, solutions and services with more than 60 years of combined experience in areas such as commercial vehicle enforcement and tolling. Our customers include government transportation and tolling agencies, traffic engineering operators and industrial, and transportation service companies worldwide.

We have predictable and recurring revenue streams derived from selling ITS systems, products and solutions through long-term customer relationships and recurring service contracts. Our businesses offer a portfolio of

¹ "Intelligent Transportation System Market – Global Forecast to 2029", MarketsandMarkets, July 2024, p. 46.

integrated hardware and software to detect, measure and analyze a variety of transportation metrics which produces a valuable source of analytics and telematics for users. With a variety of product and service offerings throughout our operations in North America and Europe, we believe there is an abundance of opportunity to create scale and efficiencies.

We remain focused on building robust cash flows and controlling expenses throughout all our businesses to facilitate a healthy and sustainable balance sheet capable of supporting both our organic and acquisitive growth strategies.

OVERALL PERFORMANCE

	Three months ended December 31,		Year ended December 31,	
	2024	2023	2024	2023
		(restated)		(restated)
Revenues	\$38,876	\$42,961	\$153,305	\$143,987
Direct cost of revenues	31,099	34,496	125,528	113,882
Gross profit	7,777	8,465	27,777	30,105
Operating expenses				
Selling, general and administrative expenses	6,913	6,737	28,486	25,954
Research and development expenses	306	722	1,377	3,163
Depreciation of right-of-use assets	369	375	1,450	1,518
Depreciation of property, plant and equipment	394	389	1,538	1,604
Amortization of intangible assets	2,307	2,375	8,473	8,587
Other charges	923	5,180	2,391	7,089
	11,212	15,778	43,715	47,915
Results from operations	(3,435)	(7,313)	(15,938)	(17,810)
Finance income	(127)	(597)	(535)	(1,019)
Finance expense	1,468	1,711	6,470	6,714
Foreign exchange (gain) loss	(3,310)	1,670	(3,962)	1,264
Other income	(2,254)	(90)	(6,262)	(717)
Change in fair value of derivative liability	(248)	1,291	(1,674)	891
Income (loss) before taxes	1,036	(11,298)	(9,975)	(24,943)
Current income tax expense (recovery)	50	291	440	(2,254)
Deferred income tax expense (recovery)	714	(115)	607	9,718
Income tax expense	764	176	1,047	7,464
Net income (loss) from continuing operations	272	(11,474)	(11,022)	(32,407)
Net loss from discontinued operations	-	-	-	(13,789)
Net income (loss)	272	(11,474)	(11,022)	(46,196)
Other comprehensive loss that may be reclassified subsequently to net income (loss):				
Foreign currency translation adjustment	(3,546)	1,244	(3,504)	(276)
Comprehensive loss	(\$3,274)	(\$10,230)	(\$14,526)	(\$46,472)
Income (loss) per share - Basic				
From continuing operations	\$0.00	(\$0.10)	(\$0.10)	(\$0.28)
From discontinued operations	-	-	-	(0.12)
Income (loss) per share - Basic	\$0.00	(\$0.10)	(\$0.10)	(\$0.40)
Income (loss) per share - Diluted				
From continuing operations	\$0.00	(\$0.10)	(\$0.10)	(\$0.28)
From discontinued operations	-	-	-	(0.12)
Income (loss) per share - Diluted	\$0.00	(\$0.10)	(\$0.10)	(\$0.40)

Our revenue streams consist of revenues earned on contracted projects, which are generally recognized over time, product sales, hardware and software system implementations, and service and maintenance contracts. Service and maintenance projects generally range from one to five-year terms but can be renewed with some contracts that could reach up to ten years or more. For project-based work, revenues will routinely vary significantly depending on the timing and nature of the specific projects underway in each reporting period.

Revenues for the three months and year ended December 31, 2024 were \$38,876 and \$153,305 compared to \$42,961 and \$143,987 in the comparative prior year period, respectively. The decrease in revenue for the three months ended December 31, 2024 resulted from fluctuations in timing of revenue on contracts as well as the disposal in the prior year of operations in Latin America which did not contribute to 2024 revenue. The increase in revenues for the year ended December 31, 2024 was primarily due to continued strong performance from the enforcement operations and increased contribution from tolling operations resulting from multiple contracts entering into the concurrent implementation completion phase and the pre-acceptance operations phase.

Gross profit as a value and as a percentage of revenues may be subject to significant variance in each reporting period due to the nature and type of contract and service work performed and currency volatility. Gross profit for the three months and year ended December 31, 2024 were \$7,777 and \$27,777, or 20% and 18%, as compared to \$8,465 and \$30,105, or 20% and 21%, in the prior year comparative periods, respectively. The year-over-year decrease in gross profit percentage compared to the prior year period was primarily due to reserves recorded for cost overruns on two tolling projects, both of which are in the implementation phase and the pre-acceptance operations phase. The year-over-year decrease in gross profit margin was partially offset by continued strong performance in the Company's enforcement operations.

Total operating expenses are comprised of selling, general and administrative costs ("SG&A"), research and development ("R&D") costs, depreciation, amortization of intangible assets and other charges. Total operating expenses for the three months and year ended December 31, 2024 were \$11,212 and \$43,715 compared to \$15,778 and \$47,915 in the prior year comparative periods, respectively. The decreases are primarily due to a reduction in other charges and lower R&D, which was offset in part by an increase in recruitment, technical consulting and business development expenses.

We are committed to continual investments in R&D to enhance our current products and advance the availability of new products within the ITS industry. For the three months and year ended December 31, 2024, net R&D spending levels as a percentage of revenue were approximately 0.8% and 0.9% as compared to 1.7% and 2.2% in the comparative prior year periods, respectively. R&D expenses compared to the prior year comparative periods declined because of reassigning personnel to project revenue activities.

For the three months and year ended December 31, 2024 we recognized income tax expense of \$764 and \$1,047 compared to income tax expense of \$176 and \$7,464 for the comparative prior year periods, respectively. For the year ended December 31, 2023 income tax expense included deferred tax asset write-offs triggered by the disposition of WiLAN.

The Company is exposed to foreign exchange risk primarily relating to its revenue, operating and capital expenditures, and net assets held in foreign currencies. This is more fully described in the Risks and Uncertainties section.

For the year ended December 31, 2024, other income includes a \$3,849 dividend from WiLAN Inc., a \$1,021 change in fair value of the investment in WiLAN, and gain on sale of XPCT which did not occur in the prior year. For the year ended December 31, 2024, other income includes IRD's share of XPCT's loss of \$220 compared to earnings of \$375 for the comparative prior year period. IRD sold its 50% interest in XPCT during the three months ended December 31, 2024.

Reconciliation of Net Income (Loss) to Adjusted EBITDA

Management considers Adjusted EBITDA, a non-IFRS financial measure, to be a useful indicator for the business to capture financial performance in a given period related to the operations of Quarterhill.

We reported Adjusted EBITDA of \$1,150 and \$233 for the three months and year ended December 31, 2024, compared to \$2,342 and \$2,851 for the comparative prior year periods, respectively. The decrease in Adjusted EBITDA for the three months ended December 31, 2024, compared to the prior year period is due to the changes in revenue and direct costs of revenue as previously explained. Other charges generally consist of advisor fees, accounting and valuation fees, due diligence related expenses and legal fees, restructuring charges, and other one-time items. Although these expenses may recur, they are not fundamental to the actual operations of our businesses and, therefore, have been excluded in the calculation of Adjusted EBITDA. The remaining adjustments relate to finance income or expense, depreciation and amortization, non-cash stock-based compensation, equity loss or earnings and dividends received from joint venture, change in fair value of derivative liability, other acquisition related accounting items and other one-time charges.

From time to time, we may acquire businesses in purchase transactions that typically result in the recognition of goodwill and other identifiable intangible assets. Acquired goodwill is not amortized but is subject to impairment testing at least annually and as other events and circumstances dictate. Other identifiable intangible assets are typically subject to amortization and, therefore, will likely increase future expenses. The determination of the value of such intangible assets requires us to make estimates and assumptions. We have ascribed value to identifiable intangible assets other than goodwill in our purchase price allocations including, but not limited to, backlog, trade name, non-competition agreements, customers and developed software related intangible assets. To the extent we ascribe values to identifiable intangible assets that have finite lives, we amortize those values over the estimated useful lives of the assets.

Reconciliation of Net Income (Loss) to Adjusted EBITDA

	Three months ended December 31,			
	2024		2023	
	\$	Per Share ^[2]	\$	Per Share
			(restated)	
Net income (loss) from continuing operations	\$272	\$0.00	(\$11,474)	(\$0.10)
Adjusted for:				
Income tax expense	764	0.01	176	0.00
Foreign exchange (gain) loss	(3,310)	(0.03)	1,670	0.02
Finance expense, net	1,341	0.01	1,114	0.01
Other charges	923	0.01	5,180	0.05
Depreciation and amortization	3,070	0.03	3,139	0.03
Stock based compensation expense	592	0.01	719	0.01
Dividend received from joint venture	-	-	617	0.01
Change in fair value of derivative liability	(248)	(0.00)	1,291	0.01
Other income	(2,254)	(0.02)	(90)	(0.00)
Adjusted EBITDA ^[1]	\$1,150	\$0.01	\$2,342	\$0.02

Weighted average number of Common Shares

Basic

115,710,553

115,025,344

	Year ended December 31,			
	2024		2023	
	\$	Per Share ^[2]	\$	Per Share
			(restated)	
Net loss from continuing operations	(\$11,022)	(\$0.10)	(\$32,407)	(\$0.28)
Adjusted for:				
Income tax expense	1,047	\$0.01	7,464	0.07
Foreign exchange (gain) loss	(3,962)	(\$0.03)	1,264	0.01
Finance expense, net	5,935	\$0.05	5,695	0.05
Other charges	2,391	\$0.02	7,089	0.06
Depreciation and amortization	11,461	\$0.10	11,709	0.10
Stock based compensation expense	2,319	\$0.02	1,246	0.01
Dividend received from joint venture	-	-	617	0.01
Change in fair value of derivative liability	(1,674)	(\$0.01)	891	(0.00)
Other income	(6,262)	(\$0.05)	(717)	(0.01)
Adjusted EBITDA ^[1]	\$233	\$0.01	\$2,851	\$0.02

Weighted average number of Common Shares

Basic

115,369,947

114,776,086

[1] Refer to Adjusted EBITDA - Non-IFRS Financial Measures

[2] Refer to Adjusted EBITDA per share - Non-IFRS ratios

SELECTED CONSOLIDATED ANNUAL AND QUARTERLY RESULTS

Selected Annual Results

(in thousands of U.S. dollars, except per share amounts)	Year ended December 31,		
	2024	2023	2022
Revenue	\$153,305	\$143,987	\$122,474
Net loss from continuing operations	(11,022)	(32,407)	(41,517)
Net (loss) income from discontinued operations	-	(13,789)	45,127
Net (loss) income	\$(11,022)	\$(46,196)	\$3,611
Loss from continuing operations per share, basic and diluted	\$(0.10)	\$(0.28)	\$(0.36)
(Loss) income per share, basic and diluted	\$(0.10)	\$(0.40)	\$0.03
Loss per share, diluted	\$(0.10)	\$(0.40)	\$(0.19)
Dividends declared per share	-	\$0.0092	\$0.04
Total assets	\$230,108	\$250,629	\$303,524
Total liabilities	\$98,985	\$107,189	\$113,678

Selected Quarterly Results

Quarter ended	Revenues	Net income (loss) from continuing operations	Net income (loss) from continuing operations per share (basic)	Net income (loss)	Net income (loss) per share (basic)	Adjusted EBITDA *	Adjusted EBITDA per share *(basic)
	\$ 000s	\$ 000s	\$	\$ 000s	\$	\$ 000s	\$
December 31, 2024	38,876	272	0.00	272	0.00	1,150	0.01
September 30, 2024	38,019	(4,109)	(0.04)	(4,109)	(0.04)	(2,758)	(0.02)
June 30, 2024	41,513	(2,967)	(0.03)	(2,967)	(0.03)	1,672	0.01
March 31, 2024	34,897	(4,218)	(0.04)	(4,218)	(0.04)	169	0.00
December 31, 2023	42,961	(11,474)	(0.10)	(11,474)	(0.10)	2,342	0.02
September 30, 2023	34,057	(1,663)	(0.01)	(1,391)	(0.01)	1,442	0.01
June 30, 2023	38,623	(10,187)	(0.09)	(21,781)	(0.19)	2,906	0.03
March 31, 2023	28,346	(9,083)	(0.08)	(11,550)	(0.10)	(3,839)	(0.03)

* Adjusted EBITDA and the respective per share amounts are non-IFRS measures; please refer to "Non-IFRS Financial Measures and Non-IFRS Ratios" and "Reconciliation of Adjusted EBITDA" sections of this MD&A.

Historically, our operating results have fluctuated on a quarterly basis and we expect that quarterly results will continue to fluctuate in the future, as revenues derived from the ITS business may be subject to varying project phases and seasonality. Operating results for interim periods should not be relied upon as an indication of the results to be expected or achieved in any future period or any fiscal year as a whole. The risk factors affecting our revenue and results, many of which are outside of our control, include those set out under the heading "Risk Factors" in our AIF.

Dividends declared on the Common Shares for the year ended December 31, 2024 and 2023 were as follows:

	Three months ended December 31,		Year ended December 31,	
	2024	2023	2024	2023
Dividends declared per common share	-	-	-	\$0.0092
Amount	-	-	-	\$1,060

In May 2023 the Company adjusted its capital allocation strategy and announced it will no longer pay a dividend. This decision creates financial flexibility and will best position the business to generate value through a capital allocation strategy focused on supporting the growth of the ITS business.

CAPITAL AND LIQUIDITY

The Company's capital management objectives are to maintain financial flexibility in order to pursue its strategy of organic growth and acquisition, and, from time to time, return capital to shareholders. The Company defines our capital as cash, the aggregate of cash and cash equivalents, short-term investments, restricted short-term investments, long-term debt, convertible debentures and shareholders' equity. The Company manages its capital structure in accordance with changes in economic conditions. To maintain or adjust its capital structure,

the Company may purchase Common Shares for cancellation pursuant to one or more normal course issuer bids and/or substantial issuer bids, issue new Common Shares, issue convertible debentures or raise or retire our debts.

Our cash and cash equivalents totaled \$31,893 as at December 31, 2024 compared to \$42,733 as at December 31, 2023, representing a decrease of \$10,840 primarily due to the acquisition of Red Fox, operational losses, debt repayment, and working capital fluctuations. At December 31, 2024, we had sufficient Adjusted Working Capital, a non-IFRS financial measure, of \$66,227 to cover short and long-term obligations.

Due to the nature of our business activities, operating cash flows may vary significantly between periods due to changes and timing in working capital balances.

Our cash resources are generally used to fund our operations, provide working capital to any of our subsidiaries if needed and to acquire additional businesses. We may also fund our ongoing cash requirements through the use of additional short-term and long-term debt and, if desirable, based on market conditions, by selling Common Shares and debt securities to the public.

In 2021, to finance the acquisition of Electronic Transaction Consultants, LLC ("ETC"), we entered into a credit agreement to receive senior secured credit facilities from HSBC Bank Canada and Royal Bank of Canada consisting of a revolving credit facility in the maximum amount of \$15,000 and a term credit facility of \$50,000. These facilities replaced all existing credit facilities we had with HSBC Bank Canada. The interest rate as at December 31, 2024 was 6.54% and both facilities have a maturity date of September 1, 2026 with a general security agreement over all the assets in North America of IRD, ETC and its parent holding company, Quarterhill USA, Inc. The carrying value of these assets as at December 31, 2024 was \$205,051. As at and during the year ended December 31, 2024, we repaid \$2,125 of the term loan and had no borrowings or repayments on the revolving credit facility.

On June 27, 2023 (the "Amendment Date"), the Company finalized an amendment to its existing credit agreement. As of the Amendment Date, the balance on the term loan was \$21,250. The amendment modified certain terms and conditions of the credit agreement to provide the Company with additional flexibility in its covenant and cash management, including a waiver on the Senior Leverage Ratio for all reporting periods up to March 31, 2024 (the "Covenant Relief Period") and a reduction in the revolving credit facility from \$15,000 to \$5,000. On September 6, 2024, the revolving credit facility was increased from \$5,000 to \$10,000.

Repayment of principal on the term credit facility was renegotiated to 2.5% of the balance as at the Amendment Date per quarter up to the maturity date, upon which the remaining balance is due.

Stated Capital Reduction

On May 8, 2023, the Company's shareholders approved a reduction of the stated capital of the Company in the amount of Can\$120,000 or \$87,948. The purpose of the stated capital reduction was to grant the board of directors more flexibility in capital management, specifically in relation to its ability to distribute dividends. The reduction in stated capital was offset by a corresponding increase in contributed surplus.

CONTRACTUAL OBLIGATIONS

Contractual obligations relating to accounts payable and accrued liabilities, long-term debt, convertible debentures and lease liabilities as at December 31, 2024 are due as follows:

	Total	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Accounts payable and accrued liabilities	\$25,598	\$25,598	-	-	-
Long-term debt	17,531	2,125	15,406	-	-
Convertible debentures	42,524	-	42,524	-	-
Lease liabilities	7,727	2,391	3,587	1,556	193
	\$93,380	\$30,114	\$61,517	\$1,556	\$193

OUTSTANDING COMMON SHARE DATA

We are authorized to issue an unlimited number of Common Shares, 6,351 special preferred, redeemable, retractable, non-voting shares and an unlimited number of preferred shares, issuable in series. As at December 31, 2024, there were 115,786,320 Common Shares and no special or preferred shares issued and outstanding. We also maintain the Quarterhill Inc. 2018 Equity Incentive Plan (the "Equity Plan"). Under the Equity Plan, we can issue a maximum of 10% of our issued and outstanding Common Shares from time to time which was, as at December 31, 2024, up to 11,578,632 Common Shares. As at December 31, 2024, we had options granted to purchase up to 4,171,040 Common Shares.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2024, the Company had no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Subsidiaries

The financial statements include the accounts of Quarterhill Inc. and its wholly-owned subsidiaries. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this section.

PROPOSED TRANSACTIONS

There are no proposed transactions.

CRITICAL ACCOUNTING ESTIMATES

Key areas involving estimation, uncertainty and critical judgments include the following:

Business Combinations

Purchase prices related to business combinations are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding cash flow projects, valuation techniques, economic risk, weighted average cost of capital and future events. Significant judgments, estimates and assumptions are also required by management in estimating the amount of contingent consideration payable. As a result, the purchase price allocation impacts the Company's reported assets and liabilities, including the amounts allocated to intangible assets and goodwill, and future earnings due to the impacts of amortization expense and impairment testing.

Revenue Recognition

Contract revenue, contract costs, contract liabilities and contract assets are based on estimates and judgments used in determining the progress of a contract. Estimates include amounts derived to measure the progress of the contract. Progress towards completion is measured by comparing the actual costs incurred to the total estimated costs for the contract. In determining the estimated costs to complete the contracts, assumptions and estimates are required to evaluate issues related to schedule, material and labour costs, changes in contract scope and subcontractor costs. Due to the nature of project contracts, estimates may change significantly between accounting periods. Changes in estimates are reflected in the period in which the circumstances that gave rise to the change became known and affect the Company's revenue, contract assets, and contract liabilities.

Impairments for Non-financial Assets and Impairment Reversals

Quarterhill's estimate of the recoverable amount for the purpose of impairment testing requires management to make assumptions regarding estimates of the present value of future cash flows including growth opportunities, economic risk, and the discount rate. These same assumptions are also used when assessing recoverability of impairments previously recognized.

Income Taxes and Deferred Taxes

Quarterhill is subject to income taxes in Canada and other foreign jurisdictions. The calculation of income taxes in many cases, however, requires significant judgment in interpreting tax rules and regulations. The Company's tax filings are subject to audits which could materially change the amount of current and deferred income taxes and liabilities. Additionally, estimation of the income tax provision includes evaluating the recoverability of deferred tax assets based on the assessment of the Company's ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based on existing tax laws, estimates of future profitability and tax planning strategies. If the future taxable results of the Company differ significantly from those expected, the Company would be required to increase or decrease the carrying value of the deferred tax assets with a potentially material impact on the Company's consolidated statements of financial position and consolidated statements of comprehensive income. The carrying amount of deferred tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to utilize all or part of the deferred tax assets. Unrecognized deferred tax assets are recognized to the extent that it is more likely than not that taxable income will be available against which deferred tax assets can be utilized.

FUTURE ACCOUNTING PRONOUNCEMENTS

Amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability*

In August 2023, the IASB issued *Lack of Exchangeability* (Amendments to IAS 21), which specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments will be effective for annual periods beginning on or after January 1, 2025, with early adoption permitted. Comparative information cannot be restated when applying the amendments.

IFRS 18, *Presentation and Disclosure in the Financial Statements* ("IFRS 18")

In April 2024, the IASB issued IFRS 18, which replaces IAS 1 and aims to improve the quality of financial reporting by introducing three sets of new requirements, which include new required categories and subtotals in the statement of profit and loss, disclosure about management-defined performance measures, and enhanced guidance on grouping of information. This standard is effective for annual periods beginning on or after January 1, 2027, with early adoption permitted.

Amendments to IFRS 9 and IFRS 7, "Classification and Measurement of Financial Instruments"

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) which aims to clarify the classification and measurement of certain financial instruments. For a financial liability, the amendments clarify derecognition should be on settlement date – when the obligation is discharged, canceled, expired or otherwise qualified for derecognition. In addition, a new

accounting policy option allows for derecognition of financial liabilities through electronic payment systems before settlement date, provided specific conditions are met.

The amendments also clarify how to assess the contractual cash flow characteristics of financial assets with Environmental, social and governance (“ESG”)-linked features or other similar contingent features, and treatment of non-recourse assets and contractually linked instruments. Enhanced disclosure requirements are introduced for financial assets and liabilities with contractual terms referencing contingent events (including those that are ESG-linked) and equity instruments classified at fair value through other comprehensive income. The new requirements will be applied retrospectively with adjustment to opening retained earnings. Prior periods are not required to be restated and can only be restated without using hindsight. The amendments will be effective for annual periods beginning on or after January 1, 2026, with early adoption permitted for financial assets classification and the related disclosures.

Management is currently assessing the impact of these amendments.

RISKS AND UNCERTAINTIES

Quarterhill operates in a dynamic and competitive business environment that exposes it to a number of risks and uncertainties. This MD&A is qualified in its entirety by the risk factors described under the heading “Risk Factors” in the AIF. The risks and uncertainties discussed in greater detail under the heading “Risk Factors” in our AIF are not, however, the only risks we face. We may also be subject to additional risks and uncertainties that are currently unknown or not currently deemed material to our business operations. If any of the risks or uncertainties we face were to occur, they could materially affect our future operating results and could cause actual events and results to differ materially from those which we expect or that we have described in our forward-looking statements.

In addition to the risk factors identified in our AIF, we may be exposed to other risks as follows:

Credit Risk

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and unbilled revenue.

Our cash and cash equivalents consist primarily of deposit investments that are held primarily with Canadian and American chartered banks. Management does not expect any counter-parties to fail to meet their obligations.

We recognize a loss allowance provision using the simplified approach based on lifetime expected credit losses. Our exposure to credit risk with our accounts receivable from customers is influenced mainly by the individual characteristics of each customer. Our operating subsidiaries’ customers are for the most part, large multinational companies or government organizations which do not have a history of non-payment. Credit risk from accounts receivable encompasses the default risk of customers. Prior to entering into transactions with new customers, we assess the risk of default associated with the particular customer. In addition, on an ongoing basis, management monitors the level of accounts receivable attributable to each customer and the length of time

taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue. We have had no material bad debts for any periods presented.

None of the amounts outstanding have been challenged by the respective counterparties and we continue to conduct business with them on an ongoing basis.

Quarterhill reviews financial assets on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective customer to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. Our objective in managing liquidity risk is to ensure that we have sufficient liquidity available to meet our liabilities when due. We manage our liquidity needs through various sources including cash generated through operations, cash reserves, various revolving credit facilities, long-term debt, convertible debentures and the issuance of Common Shares.

Market Risk

Market risk is the risk that the fair value of future cash flows from our financial instruments will fluctuate due to changes in interest rates and foreign currency exchange rates.

Interest Rate Risk

The financial instruments that expose the Company to interest rate risk are its cash and cash equivalents, short-term investments, bank indebtedness and long-term debt. The Company's objectives of managing its cash and cash equivalents and short-term investments are to ensure sufficient funds are maintained on hand at all times to meet day-to-day requirements and to place any amounts that are considered in excess of day-to-day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents into short-term investments, the Company only places investments with Canadian chartered banks and ensures that access to the amounts placed can be obtained on short notice. A one percent increase or decrease in interest rates would not have resulted in a material increase or decrease in interest income or expense during the year ended December 31, 2024.

Currency Risk

Portions of the Company's revenues and operating expenses are denominated in Canadian dollars, euros and British pounds. Because these financial statements are reported in U.S. dollars, the Company's operating results are subject to changes in the exchange rate of the foreign currencies (primarily Canadian dollars and euros) relative to the U.S. dollar. For instance, a decrease in the value of the Canadian dollar relative to the U.S. dollar has an unfavourable impact on Canadian dollar denominated revenues and a favourable impact on Canadian dollar denominated direct cost of revenues and operating expenses. Approximately 17% of the Company's cash and cash equivalents are denominated in Canadian dollars and euros, and are subject to changes in the exchange rate of the Canadian dollar and euro relative to the U.S. dollar.

U.S. Tariffs

The recent introduction of new U.S. tariffs on goods imported from Canada, Mexico and China, along with any retaliatory actions by trading partners, could increase the Company's operating and administrative expenses and result in a deterioration of broader economic conditions, which could materially affect our future operating results.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Our Chief Executive Officer and Interim Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding Quarterhill is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer in a timely manner.

In addition, our Chief Executive Officer and Interim Chief Financial Officer have designed or caused to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. The control framework used to design our ICFR is the "Internal Control - Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission.

As of December 31, 2024, an evaluation was performed on the effectiveness of ICFR to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with IFRS. Based on the evaluation performed at that time, the Chief Executive Officer and Interim Chief Financial Officer concluded they were able to certify that the design and operating effectiveness of ICFR were effective.

There were no changes to our ICFR during the three months and year ended December 31, 2024 that have materially affected, or are reasonably likely to materially affect, our ICFR.

A control system, no matter how well designed, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.



Quarterhill Inc.

2024 Annual Consolidated Financial Statements



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Quarterhill Inc. ("Quarterhill" or the "Company") are the responsibility of management and have been approved by the Board of Directors (the "Board").

The consolidated financial statements have been prepared by management in accordance with the International Financial Reporting Standards. Management is responsible for ensuring that these consolidated financial statements, which include certain amounts based on estimates and judgments, reflect the Company's business transactions and financial position in all material respects.

Quarterhill maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee (the "Committee"). The Committee is appointed by the Board, and all of its members are independent unrelated directors.

The Committee meets periodically with management, as well as with external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting items, to satisfy itself that each party is properly discharging its responsibilities, the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors on behalf of the shareholders. Ernst & Young LLP has full and free access to the Committee.

March 17, 2025

/s/ Chuck Myers

Chuck Myers

Chief Executive Officer

/s/ Morgan Demkey

Morgan Demkey

Interim Chief Financial Officer

Independent auditor's report

To the Shareholders of
Quarterhill Inc.

Opinion

We have audited the consolidated financial statements of **Quarterhill Inc.** and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2024 and 2023 and January 1, 2023, and the consolidated statements of loss and comprehensive loss, consolidated statements of shareholders' equity and consolidated statements of cash flows for the years ended December 31, 2024 and 2023, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2024 and 2023, and January 1, 2023 and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2024 and 2023 in accordance IFRS Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidation financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Restated comparative information

We draw attention to Notes 2 and 30 to the consolidated financial statements, which explains that the Company has elected to change its presentation currency from Canadian dollars to United States dollars in the year ended December 31, 2024 on a retrospective basis, accordingly, certain comparative information presented for the year ended December 31, 2023 has been restated. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matters below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters

Goodwill impairment

As at December 31, 2024, the Group has \$30,960 thousand of goodwill as disclosed in note 15 to the consolidated financial statements. The Group performed its annual impairment analysis as at December 31, 2024 and estimated the recoverable amount for its group of cash generating units ["CGUs"] using a discounted cash flow model. The Group recognized no goodwill impairment during the year ended December 31, 2024.

Auditing the Group's annual goodwill impairment test was complex given the degree of judgment and subjectivity in evaluating the estimates and assumptions used to calculate the recoverable amount for the group of CGUs. Significant assumptions included revenue projections and growth rates, earnings before interest, taxes, and depreciation and amortization ["EBITDA"] margins, terminal growth rates and discount rates, which are affected by expectations about future market and economic conditions.

How our audit addressed the key audit matter

To test the estimated recoverable amount for the group of CGUs, with the assistance of our valuation specialists, we performed the following procedures, among others:

- Evaluated the Group's discounted cash flow model and valuation methodology;
- Assessed the appropriateness of the Group's revenue projections and growth rates and EBITDA margins by comparing past projections to actual and historical performance, and/or current industry, market and economic trends;
- Evaluated the terminal growth rate by comparing assumptions to long-term inflation expectations;
- Evaluated the discount rate by assessing comparable market data and considering specific risk premiums;
- Performed sensitivity analysis on discount rate to evaluate changes in the recoverable amount of the group of CGUs; and
- Assessed the adequacy of the Group's disclosures included in note 15 to the consolidated financial statements.

Estimate to complete for long-term fixed price contracts

The Group sells integrated systems with distinct performance obligations, which involve the design, manufacturing, installation, maintenance and warranty of long-term projects that can span over periods beyond one year. Revenues for these fixed price contracts are recognized over time based on the progress towards completion of the contract using the percentage of completion method. This method is measured by reference to costs incurred relative to the total estimated costs. The Group's policy for revenue recognition together with the related significant accounting estimates and assumptions is described in note 2 to the consolidated financial statements. For the year ended December 31, 2024, the Group recorded \$135,552 thousand of revenue recognized over time.

We determined that revenue recognition for open contracts for the Group is a matter of significance to the audit due to the significant judgment made by management in determining the estimated costs to complete for long-term fixed priced contracts and, where applicable, the estimation of any loss on a project. Assessing the appropriateness of the remaining costs to complete for each project is subjective and requires significant auditor judgment.

How our audit addressed the key audit matter

To test the estimate to complete, we performed the following procedures, amongst others, for a sample of open, long-term fixed price contracts as at December 31, 2024:

- Inspected and evaluated contractual arrangements including pricing and billing terms, change orders and terms and conditions impacting revenue recognition;
- Inquired and evaluated the consistency of responses obtained from operational and finance personnel regarding risks and uncertainties with respect to fixed price contracts, as well as the nature of the work yet to be completed and estimated costs to complete such work;
- Compared estimated costs to complete, on a sample basis, to vendor quotes, purchase orders, contractual labour rates, or actual costs for similar completed projects;
- Performed a look back analysis comparing the current gross margin for projects to the initial gross margin and/or to other similar completed projects; and
- Considered subsequent events after December 31, 2024 to corroborate estimates made.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kwan-Ho Song.

Toronto, Canada
March 17, 2025

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

Consolidated Statements of Loss and Comprehensive Loss



(in thousands and in United States dollars, except share and per share amounts)

	Note	Year ended December 31,	
		2024	2023 (restated, notes 2, 30)
Revenues	7, 23	\$153,305	\$143,987
Direct cost of revenues		125,528	113,882
Gross profit		27,777	30,105
Operating expenses			
Selling, general and administrative expenses		28,486	25,954
Research and development expenses		1,377	3,163
Depreciation of right-of-use assets	9	1,450	1,518
Depreciation of property, plant and equipment	10	1,538	1,604
Amortization of intangible assets	11	8,473	8,587
Other charges	20	2,391	7,089
		43,715	47,915
Results from operations		(15,938)	(17,810)
Finance income		(535)	(1,019)
Finance expense		6,470	6,714
Foreign exchange (gain) loss		(3,962)	1,264
Other income	21	(6,262)	(717)
Change in fair value of derivative liability	18	(1,674)	891
Loss before taxes		(9,975)	(24,943)
Current income tax expense (recovery)	25	440	(2,254)
Deferred income tax expense	25	607	9,718
Income tax expense		1,047	7,464
Net loss from continuing operations		(11,022)	(32,407)
Net loss from discontinued operations	5	-	(13,789)
Net loss		(11,022)	(46,196)
Other comprehensive loss that may be reclassified subsequently to net loss:			
Foreign currency translation adjustment		(3,504)	(276)
Comprehensive loss		(\$14,526)	(\$46,472)
Loss per share - Basic			
From continuing operations		(\$0.10)	(\$0.28)
From discontinued operations		-	(0.12)
Loss per share - Basic	22	(\$0.10)	(\$0.40)
Loss per share - Diluted			
From continuing operations		(\$0.10)	(\$0.28)
From discontinued operations		-	(0.12)
Loss per share - Diluted	22	(\$0.10)	(\$0.40)

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Financial Position



(in thousands and in United States dollars)

As at	Note	December 31, 2024	December 31, 2023 (restated, notes 2, 30)	January 1, 2023 (restated, notes 2, 30)
Current assets				
Cash and cash equivalents		\$31,893	\$42,733	\$48,905
Short-term investments		-	-	1,142
Restricted short-term investments		-	-	4,812
Accounts receivable, net	26	20,716	27,291	17,155
Unbilled revenue	7	34,461	34,247	30,529
Income taxes receivable		231	-	251
Inventories (net of obsolescence)	8	10,143	10,760	10,076
Prepaid expenses and deposits		4,588	4,795	5,050
		102,032	119,826	117,920
Non-current assets				
Accounts and other long-term receivables	5, 26	4,781	4,364	397
Long-term prepaid expenses and deposits		-	-	1,257
Right-of-use assets, net	9	5,035	5,288	7,600
Property, plant and equipment, net	10	3,961	4,136	5,104
Intangible assets, net	11	78,370	79,092	104,164
Investment in joint venture	12	-	5,054	5,712
Investment in other entity	5, 13	3,919	2,898	-
Deferred compensation asset	14	1,050	952	991
Deferred income tax assets		-	-	18,903
Goodwill	4, 15	30,960	29,019	41,556
		128,076	130,803	185,684
TOTAL ASSETS		\$230,108	\$250,629	\$303,604
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	16	\$25,598	\$30,330	\$34,685
Income taxes payable		334	662	724
Current portion of lease liabilities	9	2,040	1,954	1,924
Current portion of deferred revenue	7	5,708	5,806	6,295
Current portion of long-term debt	17	2,125	2,125	21,588
Convertible debentures	2, 18	36,825	38,196	35,655
Derivative liability	2, 18	516	2,290	1,316
		73,146	81,363	102,187
Non-current liabilities				
Deferred revenue	7	1,574	621	2,022
Long-term lease liabilities	9	4,803	5,727	7,116
Long-term debt	17	15,273	17,312	-
Deferred compensation liabilities	14	1,100	945	862
Deferred income tax liabilities		2,577	1,221	1,519
Other long-term liabilities		512	-	-
		25,839	25,826	11,519
TOTAL LIABILITIES		98,985	107,189	113,706
Shareholders' equity				
Capital stock	19	314,630	313,738	401,248
Contributed surplus		127,446	126,129	37,545
Accumulated other comprehensive income		12,148	15,652	15,928
Deficit		(323,101)	(312,079)	(264,823)
		131,123	143,440	189,898
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$230,108	\$250,629	\$303,604

See accompanying notes to these consolidated financial statements.

On behalf of the Board of Directors:

/s/ Roxanne Anderson	/s/ Pamela Steer
Roxanne Anderson	Pamela Steer
Chair, Audit Committee	Director

Consolidated Statements of Cash Flows



(in thousands and in United States dollars)

Note	Year ended December 31,	
	2024	2023 (restated, note 2)
Operating activities:		
Net loss from continuing operations	(\$11,022)	(\$32,407)
Add (deduct) non-cash items:		
Stock-based compensation expense	2,528	1,246
Depreciation and amortization	11,461	11,709
Foreign exchange (gain) loss	(3,962)	1,264
Other income	(6,262)	(717)
Impairment losses	-	2,181
Gain on disposal of joint venture	(708)	-
Loss on disposal	-	2,750
Deferred and non-cash income tax expense	607	9,718
Embedded derivatives	-	11
Change in fair value of derivative liability	(1,674)	891
Non-cash interest expense	2,202	2,117
Net change in non-cash working capital balances	2,408	(12,784)
Cash used in continuing operations	(4,422)	(14,021)
Net operating cash flows attributable to discontinued operations	-	(4,386)
Net cash used in operating activities	(4,422)	(18,407)
Financing activities:		
Dividends paid	-	(2,127)
Payment of lease liabilities	(2,412)	(2,259)
Repayment of long-term debt	(2,125)	(2,313)
Common shares issued for cash on the exercise of options	-	80
Cash used in continuing financing activities	(4,537)	(6,619)
Net financing cash flows attributable to discontinued operations	-	(100)
Net cash used in financing activities	(4,537)	(6,719)
Investing activities:		
Net proceeds from disposition of a subsidiary	-	32,688
Cash sold on disposition of a subsidiary	-	(8,189)
Net proceeds from disposition of a joint venture	4,386	-
Acquisition of business, Red Fox	(7,181)	-
Cash acquired on acquisition of business, Red Fox	2,296	-
Proceeds from sale of property, plant and equipment	98	42
Purchase of property, plant and equipment	(1,390)	(1,637)
Dividend received from joint venture	-	617
Dividend received from investment in other entity	3,849	-
Capitalized software costs	(4,045)	(3,338)
Cash (used in) generated from continuing investing activities	(1,987)	20,183
Net investing cash flows attributable to discontinued operations	-	1,194
Net cash (used in) generated from investing activities	(1,987)	21,377
Foreign exchange on cash held in foreign currencies	106	(2,423)
Net decrease in cash and cash equivalents	(10,840)	(6,172)
Cash and cash equivalents, beginning of year	42,733	48,905
Cash and cash equivalents, end of year	\$31,893	\$42,733

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Shareholders' Equity



(in thousands and in United States dollars)

	Note	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
Balance, January 1, 2023 (restated)	2	\$401,248	\$37,545	\$15,928	(\$264,823)	\$189,898
Net loss		-	-	-	(46,196)	(46,196)
Other comprehensive loss		-	-	(276)	-	(276)
Stock-based compensation expense		-	1,246	-	-	1,246
Exercise of stock options		121	(64)	-	-	57
Common shares issued from restricted stock units	19	271	(490)	-	-	(219)
Common shares issued from deferred stock units		46	(56)	-	-	(10)
Reduction of stated capital	19	(87,948)	87,948	-	-	-
Dividends declared	19	-	-	-	(1,060)	(1,060)
Balance, December 31, 2023		\$313,738	\$126,129	\$15,652	(\$312,079)	\$143,440
Net loss		-	-	-	(11,022)	(11,022)
Other comprehensive loss		-	-	(3,504)	-	(3,504)
Stock-based compensation expense		-	2,528	-	-	2,528
Common shares issued from restricted stock units	19	837	(1,156)	-	-	(319)
Common shares issued from deferred stock units	19	55	(55)	-	-	-
Balance, December 31, 2024		\$314,630	\$127,446	\$12,148	(\$323,101)	\$131,123

See accompanying notes to these consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

1. NATURE OF BUSINESS

Quarterhill Inc. ("Quarterhill" or the "Company") is a Canadian company incorporated and domiciled in Canada. The address of the Company's registered office is 200 Bay Street, Suite 1200, Toronto, Ontario, M5J 2J2. The Company's shares are listed under the symbol "QTRH" on the Toronto Stock Exchange (the "TSX") and on the United States OTCQX Best Market under the symbol "QTRHF". Quarterhill is focused on the acquisition, management and growth of companies that provide integrated, tolling and mobility systems and solutions to the intelligent transportation systems ("ITS") industry as well as its adjacent markets.

On June 15, 2023, the Company sold its investment in WiLAN Inc. and its related entities ("WiLAN"), which represented the Licensing segment. The results of WiLAN have been presented as discontinued operations in the Company's consolidated financial statements and further disclosed in Note 5, *Discontinued Operations*.

2. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of presentation

These consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Directors on March 17, 2025.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value on a recurring basis, as explained in the accounting policies below.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company ceases to control the subsidiary. All intercompany transactions and balances have been eliminated in these consolidated financial statements.

Functional and presentation currency

Transactions of the Company's individual entities are recorded in their own functional currency based on the primary economic environment in which they operate.

Effective January 1, 2023, the Company changed the presentation currency of its financial statements to United States ("US") dollars, the functional currency of Quarterhill. A significant proportion of the Company's sales, expenses, assets and liabilities are denominated in US dollars. The change in presentation currency represents a voluntary change in accounting policy. The Company has applied the presentation currency change retrospectively, in accordance with the guidance in IAS 8 "Account Policies, Changes in Accounting Estimates and Errors". All periods presented in the consolidated financial statements have been translated into the new presentation currency, in accordance with the guidance in IAS 21 "The Effects of Changes in Foreign Exchange

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Rates". This change in presentation currency aims to enhance external stakeholders' ability to assess the financial performance of the Company and to reduce the impact of foreign exchange volatility.

For the prior year comparative periods, assets and liabilities presented and previously reported in Canadian dollars have been translated to US dollars using year-end exchange rates of 0.7547 (December 31, 2023) and 0.7370 (January 1, 2023). Consolidated statements of loss and comprehensive loss previously reported for the year ended December 31, 2023 have been translated using average quarterly exchange rates of 0.7398, 0.7447, 0.7455 and 0.7350 for the three-month periods ended March 31, 2023; June 30, 2023; September 30, 2023; and December 31, 2023, respectively. Retained earnings and historical equity transactions were recorded at the historical exchange rate of the transactions. Foreign currency differences arising from the translation were recognized in accumulated other comprehensive income. The effects of the change in presentation currency are detailed in Note 30.

Estimates, assumptions and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in adjustments to the carrying amount of an asset or liability or the reported amount of revenues and expenses in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant judgments and estimates made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include the following:

Business combinations

Purchase prices related to business combinations are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding cash flow projects, valuation techniques, economic risk, weighted average cost of capital and future events. Significant judgments, estimates and assumptions are also required by management in estimating the amount of contingent consideration payable. As a result, the purchase price allocation impacts the Company's reported assets and liabilities, including the amounts allocated to intangible assets and goodwill, and future earnings due to the impacts of amortization expense and impairment testing.

Revenue recognition

Contract revenue, relating to performance obligations satisfied over time using the percentage-of-completion approach of accounting, contract costs, contract liabilities and contract assets are based on estimates and judgments used in determining the progress of a contract. Estimates include amounts derived to measure the progress of the contract. Progress towards completion is measured by comparing the actual costs incurred to the total estimated costs for the contract. In determining the estimated costs to complete the contracts, assumptions and estimates are required to evaluate issues related to schedule, material and labour costs, changes in contract scope and subcontractor costs. Due to the nature of project contracts, estimates may change significantly between accounting periods. Changes in estimates are reflected in the period in which the

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

circumstances that gave rise to the change became known and affect the Company's revenue, contract assets, and contract liabilities.

Impairments for non-financial assets and impairment reversals

The Company's estimate of the recoverable amount for the purpose of impairment testing requires management to make assumptions regarding estimates of the present value of future cash flows including growth opportunities, economic risk, and the discount rate. These same assumptions are also used when assessing recoverability of impairments previously recognized.

Income taxes

The Company is subject to income taxes in Canada and other foreign jurisdictions. The calculation of income taxes in many cases, however, requires significant judgment in interpreting tax rules and regulations. The Company's tax filings are subject to audits, which could materially change the amount of current and deferred income taxes and liabilities. Additionally, estimation of the income tax provision includes evaluating the recoverability of deferred tax assets based on the assessment of the Company's ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based on existing tax laws, estimates of future profitability and tax planning strategies. If the future taxable results of the Company differ significantly from those expected, the Company would be required to increase or decrease the carrying value of the deferred tax assets with a potentially material impact on the Company's consolidated statements of financial position and consolidated statements of loss and comprehensive loss. The carrying amount of deferred tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to utilize all or part of the deferred tax assets. Unrecognized deferred tax assets are recognized to the extent that it is more likely than not that taxable income will be available against which deferred tax assets can be utilized.

Leases

Leases are recognized at the date the leased asset is available for use. The determination of the present value of the right-of-use asset and lease liability requires the Company to make assumptions, estimates and judgments regarding assessment of contract and discount rate. A lease is recorded based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The discount rate utilized by the company is the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate is the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment with similar terms, security and conditions. Changes in estimates are reflected in the period in which the circumstances that gave rise to the change became known and affect the Company's right-of-use asset and lease liability.

Stock-based compensation

The Company operates a stock-based compensation plan for its employees, directors, and key management personnel. The stock-based payment arrangements include Restricted Stock Units ("RSUs") and Deferred Stock Units ("DSUs"). The fair value of RSUs is determined at the grant date using the market price of the Company's common shares.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments

Financial assets and liabilities, with the exception of accounts receivable and unbilled revenue that does not have a significant financing component, are initially recognized at fair value plus or minus directly attributable transaction costs as appropriate, except for financial assets at fair value through profit or loss, for which transaction costs are expensed. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding approach, effective interest rate, impairment, and foreign exchange rates. As a result, the fair value impacts the Company's reported assets and liabilities.

Allowance for doubtful accounts

The Company carries lifetime expected credit losses for all accounts receivable and contract assets. The determination of the lifetime expected credit losses requires the Company to make assumptions, estimates and judgments regarding the Company's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables, and financial condition of the borrower. As a result, the fair value impacts the Company's reported assets, including accounts receivable, and expenses.

Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined on a weighted average basis, which was a judgment made by management. In addition to the average cost method, the Company maintains a provision for inventory obsolescence to account for slow-moving, obsolete, or damaged inventory. The provision requires the Company to make assumptions, estimates and judgments regarding the Company's best estimate of the net realizable value (NRV) of inventory, which is influenced by factors such as the age of inventory, market trends, customer demand, and the condition of the goods. The calculation of this provision requires significant judgment, particularly when estimating the future salability and net realizable value of old or slow-moving items. As a result, the inventory costing method and provision for inventory obsolescence impacts the Company's reported assets, including inventory, and direct cost of revenues.

Business combinations

The Company uses the acquisition method of accounting for business combinations. The cost of an acquisition is measured as the consideration transferred at fair value at the acquisition date. The determination of fair values for the acquired intangible assets involves the use of discounted cash flow analyses. Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. The Company determines that a pre-acquisition contingency is probable in nature and estimable as of the acquisition date and records its best estimate for the contingency as part of the purchase price allocation. The Company continues to gather information and evaluates any pre-acquisition contingencies throughout the measurement period and makes adjustments as necessary to the purchase price allocation. Changes in fair value of contingent consideration outside of the measurement period are measured at fair value, with changes in fair value recognized in profit or loss. Acquisition-related costs are expensed as incurred. Any excess of the fair value of the consideration transferred over the fair value of identifiable net assets acquired, at the acquisition date, is recorded as goodwill.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into the applicable functional currency of the entity at exchange rates prevailing at the consolidated statements of financial position dates. Transactions carried out in foreign currencies are translated into the functional currency using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities denominated in foreign currency are measured at the historical exchange rate prevailing at the transaction date. Revenue and expenses are translated at the average rate for the period. The gains and losses from foreign currency denominated transactions are included in foreign exchange gain/loss in the consolidated statements of loss and comprehensive loss. The assets and liabilities of operations with a functional currency other than United States dollars are translated into United States dollars at period end foreign currency rates. Revenues and expenses of such operations are translated into United States dollars at average rates for the period. Foreign currency translation gains and losses are recognized in other comprehensive income (loss). The relevant amount in cumulative foreign currency translation adjustment is reclassified into earnings upon disposition of a foreign operation.

Cash and cash equivalents

Cash and cash equivalents consist of cash in banks and highly liquid investments with original terms to maturity at the date of acquisition of three months or less. As at December 31, 2024, cash equivalents were \$nil (2023 - \$nil).

Short-term investments

Short-term investments are accounted for at amortized cost using the effective interest rate method. Short-term investments comprise guaranteed investment certificates with original maturities of one year or less at the date of investment, and their carrying value approximates their fair value.

Unbilled revenue

Unbilled revenue includes contract assets which are unbilled amounts typically resulting from sales under long-term contracts recognized over time based on the extent of progress towards completion of the performance obligation, based on costs incurred relative to the total expected costs to complete each project, and when revenue recognized exceeds the amount billed to the customer accounted for under IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). At any given period-end, a large portion of the balance in this account represents the accumulation of labour, materials and other costs that have not been billed due to timing, whereby the accumulation of each month's costs and earnings is administratively billed in subsequent months. Also included in the account are amounts that will become billable according to contract terms, which usually require the consideration of the passage of time, achievement of milestones or completion of the project. Contract liabilities consist of advance payments and deferred revenue. Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. Advance payments are classified as current or non-current based on the timing of when revenue is expected to be recognized.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined on a weighted average basis. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and the directly attributable costs required to bring the asset to the condition necessary for the asset to be capable of operating in the manner intended by management. When components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and depreciated accordingly. The cost of replacing or repairing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that future economic benefits will occur and the cost can be measured reliably. The costs of routine maintenance are recognized in profit or loss as incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	term of the lease
Computer equipment and software	3 years
Furniture and fixtures	5 years
Machinery and equipment	4-7 years
Building	20 years

The Company reviews the residual value, useful lives and depreciation methods used on an annual basis and, where revisions are required, the Company applies such changes in estimates on a prospective basis.

Intangible assets

Intangible assets consist of patents, developed software, customer relationships, non-competition agreements, trade name and backlog.

Developed software, customer relationships, and trade names were acquired through business acquisitions and are recognized at fair value as determined on the acquisition date less accumulated amortization and impairments. Fair value of the developed software is determined based on the present value of expected future cash flows. Customer relationships represent acquired customer relationships with customers that are capable of being separated from the acquired entity and being sold, transferred, licensed, rented or exchanged. These customer relationships are initially recorded at their fair value based on the present value of expected future cash flows.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Amortization is calculated on a straight-line basis over the estimated useful lives of the intangible assets as follows:

Patents	3-15 years
Developed software	3-15 years
Customer relationships and backlog	7-15 years
Trade name	7-12 years
Non-competition agreements	term of agreement

The Company continually evaluates the remaining estimated useful lives of its finite intangible assets to determine whether events and circumstances warrant a revision to the remaining period of amortization and are accounted for prospectively from the date of the change.

Impairment of non-financial assets

The carrying amounts of non-financial assets, excluding inventories, deferred income tax assets and contract assets, are reviewed for impairment at each reporting date, or whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. Goodwill is tested at least annually, at year-end, for impairment. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows, the cash-generating unit ("CGU"), from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is determined by the cash flows expected to arise from the CGU discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and asset-specific risk.

In determining fair value less costs of disposal, an appropriate valuation model is used. These calculations are corroborated by the use of valuation multiples, quoted share prices and other available fair value indicators. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amount of the other assets in the CGUs.

For non-financial assets that have been previously impaired, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previous impairment losses may no longer exist or may have decreased. If such an indication exists, the Company estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the impairment loss was recognized. The impairment loss to be reversed in the consolidated statements of loss and comprehensive loss is limited to the recoverable amount, but not beyond the carrying amount, net of depreciation or amortization, that would have arisen if the prior impairment loss had not been recognized.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Investment in joint venture

The Company's joint arrangement has been determined to be a joint venture based on the Company's assessment of its contractual rights and obligations. Joint ventures are accounted for using the equity method whereby the investments are initially recorded at cost. The investment is increased or decreased to reflect the Company's proportionate share of the post-acquisition earnings or losses and equity movements of the investee, after adjustments to align the accounting policies with those of the Company. When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

Deferred compensation asset and liability

The Company recognizes a deferred compensation plan that enables upper-level management and executives to defer compensation until retirement. The Company funds these deferred compensation liabilities by making contributions to a trust invested in various mutual funds, presented as deferred compensation asset on the consolidated financial statements.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is presented separately on the consolidated statements of financial position and is subsequently measured at cost less any accumulated impairment losses.

Revenue recognition

The Company recognizes revenue, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, when control of the promised goods or services is transferred to the customer. Revenue represents the amount that the Company expects to receive for products and services in its contracts with customers, net of sales taxes. The cumulative effects of revisions to contract revenues and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated. These revisions can include such items as the effects of change orders and claims, warranty claims, liquidated damages or other contractual penalties and adjustments for contract closeout settlements. The following paragraphs describe the specific revenue recognition policies for each of the Company's significant types of revenue.

Contracted projects

The majority of sales of integrated systems are delivered as contracted projects with contract terms of less than one year to more than five years, and the Company typically transfers control of goods or services and satisfies performance obligations over time and therefore recognizes revenue over time as these performance obligations are satisfied. This continuous transfer of control to the customer is often supported by the customer's physical possession or legal title to the work in process, contractual clauses that provide the Company with a present right to payment for work performed to date plus a reasonable profit in the event a customer unilaterally terminates the contract for convenience, and as the customer simultaneously receives and consumes the benefits provided by the Company's performance. The Company's contract types include fixed price and time and materials contracts. The transaction price includes amounts expected to be received in exchange for the goods or services plus any contract amendments that are expected to be received. Payment

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

terms are based on completion of milestones throughout the project life for fixed price contracts and monthly for time and materials projects.

Many of these projects have distinct performance obligations typically encompassing one or more of installation, maintenance and warranty. A contract's transaction price is allocated to each distinct performance obligation using the best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus margin approach.

Onerous contracts

The Company assesses its contractual obligations to identify onerous contracts at each reporting date. An onerous contract is one where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. When a contract is identified as onerous, provisions are calculated as the excess of the expected costs of fulfilling the contract over the expected economic benefits to be received.

Installations

Revenue for the installation obligations of fixed price contracts is recognized over time using the input method based on costs incurred relative to the total expected costs to complete each project. Control is transferred to the customer over time as the customer gains physical possession or legal title to the work in process, as well as contractual clauses that provide the Company with a present right to payment for work performed to date plus a reasonable profit in the event a customer unilaterally terminates the contract for convenience and, accordingly, revenue earned from the contract is recognized over time based on the extent of progress towards completion of the performance obligation based on costs incurred relative to the total expected costs to complete each project. The Company reviews and updates the contract-related estimates regularly. Determining the contract costs and estimates to complete requires significant judgment. Adjustments are recognized in profit on contracts under the cumulative catch-up method in the period the adjustment is identified. If the Company anticipates the estimated remaining costs to completion will exceed the value allocated to the performance obligation, the resulting loss is recognized immediately.

Maintenance

The maintenance obligation of contracts with multiple performance obligations is recognized over the term of the contract as control is transferred to the customer as the customer simultaneously receives and consumes the benefits provided by the Company's performance. Stand-alone maintenance service contracts are typically time and materials, but some are fixed price, for which revenue is recognized in the same manner as fixed price installations, over time using the input method based on costs incurred relative to the total expected costs to complete each project. For time and materials contracts, labour and material rates are established within the contract. Revenues from time and materials contracts are recognized as control is transferred to the customer based on cost plus margin. These services are billed on a monthly basis and collected shortly thereafter.

Warranty

Revenue from warranty obligations is recognized over time based on time lapsed as this best represents the value transferred to the customer.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Product sales

Product sales revenue is recognized when control transfers under the term of the enforceable contract. Customers are billed when transfer of control occurs, and payments are typically due within 30 days.

Financial instruments

Recognition and initial measurement

Financial assets and liabilities, with the exception of accounts receivable and unbilled revenue that does not have a significant financing component, are initially recognized at fair value plus or minus directly attributable transaction costs as appropriate, except for financial assets at fair value through profit or loss ("FVTPL"), for which transaction costs are expensed. Accounts receivable and unbilled revenue that does not have a significant financing component are initially measured at the transaction price determined in accordance with IFRS 15. Accounts receivable are recognized on the date that they originate, and all other financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. The Company considers whether a contract contains an embedded derivative when the Company first becomes party to it. Embedded derivatives are separately accounted for from the host contract if the host contract is not measured at FVTPL and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment of the fair value of derivatives occurs each reporting period, with the changes in fair value recognized through profit or loss.

Financial assets

The classification of financial assets depends on the business model for managing the financial assets and the associated contractual cash flows. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets consist of cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable, unbilled revenue, and deferred compensation asset, all of which are classified at amortized cost.

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities consist of accounts payable and accrued liabilities, convertible debentures, long-term debt and deferred compensation liabilities, which are classified at amortized cost.

Subsequent measurement

Subsequent to initial recognition, financial assets and liabilities classified at amortized cost are measured using the effective interest method, less, in the case of financial assets, any impairment. Interest income and expense, foreign exchange gains and losses, impairment and any gain or loss on derecognition are recognized in profit and loss. Contingent liabilities are reported at fair value and the gain or loss recognized in profit or loss as an other charge.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Derecognition

The Company derecognizes a financial asset when the rights to receive cash flows from the financial asset have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. The Company derecognizes a financial liability when the contractual obligations are discharged, cancelled or expired.

Derivative instruments

The Company may use derivative financial instruments to reduce exposure to fluctuation in foreign currency exchange rates. The Company may enter into foreign exchange contracts to hedge anticipated cash flows denominated in a foreign currency. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset or liability and certain criteria are met. Derivative assets and liabilities are remeasured at each subsequent reporting period with any gains or losses arising from changes in fair value recorded within profit or loss.

The Company has elected not to apply hedge accounting to derivative contracts; as such, these derivative financial instruments are recorded at fair value upon recognition and on a recurring basis, with subsequent changes in fair value recorded in profit or loss during the period of change. Derivatives are reported as other current assets when they have a positive fair value and as other current liabilities when they have a negative fair value.

Fair value measurement of financial instruments

The Company uses various valuation techniques and assumptions when measuring the fair value of its financial assets and financial liabilities. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are based on quoted prices (unadjusted) in active markets that are accessible at the reporting date for identical assets or liabilities;

Level 2 – Inputs are based on quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., prices) or indirectly (i.e., derived from prices); and

Level 3 – Inputs are based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurement.

The following methods and assumptions were used to estimate the fair values of each class of financial instruments for which it is practicable to estimate that value.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Derivative financial instruments

The fair value of sales contract embedded derivatives is measured using a market approach, based on the difference between the quoted forward exchange rate as of the contract date and quoted forward exchange rate as of the reporting date. The fair value of forward exchange contracts is determined using the quoted forward exchange rates at the reporting date. The fair value of derivative liabilities related to the convertible debentures is measured using the Black-Scholes option pricing model.

Contingent liabilities

Contingent liabilities are carried at fair value, which is calculated using management's estimates or, where appropriate, a Monte Carlo simulation model.

The carrying amount of the Company's other financial assets and liabilities, including cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable, unbilled revenue, and accounts payable and accrued liabilities, approximates their fair value due to their short-term maturity. The fair value of the bank indebtedness and long-term debt approximates the carrying amount since these debt instruments have floating interest rates. The value of convertible debentures is initially recognized at fair value, and subsequently measured at amortized cost using the effective interest rate method. The carrying amount of the deferred compensation asset and deferred compensation liability are measured at fair value based on the fair value of the underlying investments.

Impairment of non-derivative financial assets

The Company applies the IFRS 9, "Financial Instruments" ("IFRS 9") simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all accounts receivable and contract assets. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables, and financial condition of the borrower. Financial assets are written off when there is no reasonable expectation of recovery.

Research and development

Research costs are included in the consolidated statements of loss and comprehensive loss in the periods in which they are incurred, net of earned investment tax credits. Software development costs are deferred and amortized when technological feasibility has been established, or otherwise are expensed as incurred.

Warranties

The Company records the estimated costs of product warranties at the time revenue is recognized. Warranty obligation arises from the Company having to replace goods and/or services that have failed to meet required customer specifications due to breakdown or error related to product or workmanship. The Company's warranty obligations are affected by product failure rates, differences in warranty periods, regulatory developments with respect to warranty obligations in the countries in which the Company carries on business, freight expense and material usage and other related repair costs.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

The Company's estimates of costs are based upon historical experience, expectations of future return rates and unit warranty repair costs. If the Company experiences increased or decreased warranty activity or increased or decreased costs associated with servicing those obligations, revisions to the estimated warranty liability are recognized in the reporting period when such revisions are made.

Financing costs

Financing costs comprise borrowing costs related to short- and long-term debt and the unwinding of the discount on provisions.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date, which is the date the leased asset is available for use. The Company has elected not to separate lease and non-lease components and instead treats them all as lease payments and a single lease component.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate is the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment with similar terms, security and conditions. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. The lease liability is measured at amortized cost using the effective interest method. The lease liability is remeasured when there is a change in future lease payments arising from a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset unless it has been reduced to zero. Any further reduction in the lease liability is then recognized in profit or loss.

The ROU asset is initially measured based on the initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The ROU assets are depreciated over the shorter of the lease term and the useful life of the underlying asset using the straight-line method as this most closely reflects the expected pattern of the consumption of the future economic benefits. In addition, the ROU asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate on the date of modification, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

The lease payments associated with short-term and low-value leases are recognized as an expense on a straight-line basis over the lease term as the Company has elected the relevant practical expedients. Short-term leases are those with a lease term of 12 months or less. Low-value asset leases are those leases where the asset being leased when new has a value of less than US\$5.

Stock-based compensation

The Company operates a stock-based compensation plan for its employees, directors, and key management personnel. The stock-based payment arrangements include RSUs and DSUs, which are granted to eligible individuals as part of their compensation package.

RSUs are granted to certain employees and are settled in common shares issued from treasury on a one-to-one basis in six tranches, with the first tranche having vested on the date of grant and each subsequent tranche vesting every six months. The fair value of RSUs is determined at the grant date using the market price of the Company's common shares. The stock-based compensation expense recognized for RSUs is allocated over the vesting period. The Company recognizes a share-based payment expense with a corresponding increase in contributed surplus. RSUs are subject to service-based vesting conditions and, in some cases, performance conditions. In the event of modifications to vesting conditions or a change in the terms of the RSUs, the Company remeasures the fair value of the awards, adjusting the expense recognition as necessary.

DSUs are available to directors as part of their compensation package. Pursuant to the Equity Plan, these DSUs can be settled in cash or common shares issued from treasury on a one-to-one basis, on the distribution dates at the Board's discretion, which are intended to be settled in common shares. The distribution date for a director is when the individual retires from the Board. The fair value of DSUs is also determined at the grant date using the market price of the Company's common shares. The stock-based compensation expense recognized for DSUs is allocated over the period of service. The Company recognizes a share-based payment expense with a corresponding increase in contributed surplus.

Income taxes, deferred taxes and investment tax credits

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of loss and comprehensive loss, except to the extent that they relate to items recognized directly in equity or in OCI, in which case the income taxes are also recognized in equity or in OCI.

Current income taxes are the expected taxes payable on the taxable income for the year, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous years.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Deferred income tax assets and liabilities are determined based on the difference between the accounting and tax bases of the assets and liabilities and measured using the enacted tax rates that are expected to be in effect when the differences are estimated to be reversed. The realization of deferred income tax assets is dependent upon the generation of sufficient future taxable income during the periods prior to the expiration of the associated tax attributes. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be used. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

The Company is also engaged in scientific research and experimental development giving rise to investment tax credits that may be available to reduce future taxes payable in certain jurisdictions. In calculating income taxes and investment tax credits, consideration is given to factors such as current and future tax rates in the different jurisdictions, non-deductible expenses, qualifying expenditures and changes in tax law. In addition, management makes judgments on the ability of the Company to realize these investment tax credits reported as assets based on its estimations of amounts and timing of future taxable income and future cash flows in the related jurisdiction.

Discontinued operations

A discontinued operation is a component of the Company's business, of which the operations and cash flows can be clearly distinguished from the rest of the Company, and either (a) represents a separate major line of business or geographic area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. Discontinued operations are presented separately from continuing operations in the consolidated statements of loss and comprehensive loss and consolidated statements of cash flows for all periods presented.

3. ACCOUNTING STANDARDS

Changes in Accounting Policy

A number of amendments to existing standards became effective January 1, 2024 but, other than the one noted below, they were not applicable to the Company's financial statements.

Classification of liabilities as current or non-current

In January 2020 and October 2022, the International Accounting Standards Board (IASB) issued amendments to IAS 1, *Presentation of Financial Statements* (IAS 1). The amendments clarify certain requirements for determining whether a liability is classified as current or non-current and require new disclosures for non-current loan liabilities that are subject to covenants within 12 months after the end of the reporting period. The amendments did not have a material impact on its financial statements except as disclosed in Note 18.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

3. ACCOUNTING STANDARDS (continued)

New standards and interpretations not yet adopted

Listed below are the standards, amendments and interpretations that the Company reasonably expects to be applicable at a future date and intends to adopt when they become effective.

Amendments to IAS 21, The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability (“IAS 21”)

In August 2023, the IASB issued *Lack of Exchangeability* (Amendments to IAS 21), which specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments will be effective for annual periods beginning on or after January 1, 2025, with early adoption permitted. Comparative information cannot be restated when applying the amendments.

IFRS 18, Presentation and Disclosure in the Financial Statements (“IFRS 18”)

In April 2024, the IASB issued IFRS 18, which replaces IAS 1 and aims to improve the quality of financial reporting by introducing three sets of new requirements, which include new required categories and subtotals in the statement of profit and loss, disclosure about management-defined performance measures, and enhanced guidance on grouping of information. The issuance of IFRS 18 results in consequential amendments to IAS 7, *Statement of Cash Flows*, and IAS 33, *Earnings Per Share*. This standard is effective for annual periods beginning on or after January 1, 2027, with early adoption permitted.

Amendments to IFRS 9 and IFRS 7, Classification and Measurement of Financial Instruments (“IFRS 7”)

In May 2024, the IASB issued *Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 and IFRS 7), which aims to clarify the classification and measurement of certain financial instruments. For a financial liability, the amendments clarify derecognition should be on settlement date – when the obligation is discharged, cancelled, expired or otherwise qualified for derecognition. In addition, a new accounting policy option allows for derecognition of financial liabilities through electronic payment systems before settlement date, provided specific conditions are met.

The amendments also clarify how to assess the contractual cash flow characteristics of financial assets with environmental, social, and governance (“ESG”)-linked features or other similar contingent features, and treatment of non-recourse assets and contractually linked instruments. Enhanced disclosure requirements are introduced for financial assets and liabilities with contractual terms referencing contingent events (including those that are ESG-linked) and equity instruments classified at fair value through other comprehensive income. The new requirements will be applied retrospectively with adjustment to opening retained earnings. Prior periods are not required to be restated and can only be restated without using hindsight. The amendments will be effective for annual periods beginning on or after January 1, 2026, with early adoption permitted for financial assets classification and the related disclosures.

Management is currently assessing the impact of these amendments and new requirements.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

4. BUSINESS COMBINATIONS

Acquisitions are accounted for using the acquisition method of accounting, and the consolidated financial statements include the acquisition results since the acquisition date.

On April 8, 2024, the Company acquired 100% of the issued and outstanding shares of Red Fox I.D. Limited ("Red Fox") through a combination of cash and equity. Based in England, Red Fox is a provider of Automatic Vehicle Detection and Classification ("AVDC") software to the tolling industry. AVDC is responsible for the detection, classification and tracking of a vehicle as it enters and exits a tolling facility. The transaction, valued at \$7,367 (GBP £5,835), was financed through the Company's cash reserves.

The following table summarizes the fair value allocation of identifiable assets acquired and liabilities assumed on the acquisition closing date:

Cash consideration paid	\$7,181
Contingent consideration	695
Total consideration	7,876
Settlement of pre-existing relationship	(509)
Total consideration paid for acquisition of Red Fox	\$7,367

Identifiable net assets acquired at fair value:

Cash and cash equivalents	\$2,296
Accounts receivable	148
Inventories	50
Prepaid expenses and deposits	23
Property, plant and equipment	31
Intangible assets	
Customer relationships	2,185
Developed software	1,440
Goodwill	2,105
Accounts payable and accrued liabilities	(96)
Deferred revenue	(20)
Net deferred income tax liabilities	(795)
Total identifiable net assets at fair value	\$7,367

The fair values of the assets and liabilities associated with these acquisitions were finalized by the date these Consolidated financial statements were approved by the Board of Directors on March 17, 2025.

The goodwill recognized is attributable to intangible assets that do not qualify for separate recognition and may include expected synergies with the Company's existing businesses and expected growth in the markets that they serve.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

4. BUSINESS COMBINATIONS (continued)

Total transaction costs related to the acquisition were \$383. These costs are included within the consolidated statements of loss and comprehensive loss as other charges.

For the year ended December 31, 2024, revenues and net loss relating to Red Fox were \$1,320 and \$827, respectively. If the Red Fox acquisition had been completed as of January 1, 2024, the Company estimates that this subsidiary's revenues and net income would have been \$2,748 and \$19, respectively, for the year ended December 31, 2024.

Reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period is presented below:

Balance, January 1, 2024	\$29,019
Acquisition of Red Fox	2,105
Currency translation	(164)
Balance, December 31, 2024	\$30,960

5. DISCONTINUED OPERATIONS

On June 15, 2023, the Company sold WiLAN for a combination of cash, equity and other non-cash proceeds totaling an estimated fair market value of \$40,722. Equity consideration retained consists of 10% of WiLAN currently recognized at fair market value on the consolidated statements of financial position using Level 3 inputs. The contingent consideration has also been fair valued using Level 3 inputs and is recorded on the consolidated statements of financial position in accounts and other long-term receivables. WiLAN represented the Company's Licensing segment since its inception and, thus, following disposition, the Company has a single operating segment, composed solely of its ITS operations.

The results of the discontinued operations are presented below for the following periods:

	Year ended December 31,	
	2024	2023
Revenues	-	\$4,373
Direct cost of revenues	-	6,077
Gross loss	-	(1,704)
Operating expenses	-	5,896
Results from operations	-	(7,600)
Other income	-	(226)
Loss before taxes	-	(7,374)
Current income tax recovery	-	(279)
Deferred income tax recovery	-	(2,500)
Loss from discontinued operations	-	(4,595)
Loss on disposal, before tax	-	6,133
Income tax expense on disposal	-	3,061
Net loss from discontinued operations	-	(\$13,789)

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

6. FINANCIAL INSTRUMENTS

Derivatives include the embedded derivative portion of the unearned revenue of US dollar denominated sales contracts in the Company's Canadian, Chilean and Mexican subsidiaries. The fair value of sales contract embedded derivatives is measured using a market approach, based on the difference between quoted forward exchange rates as of the contract date and quoted forward exchange rates as of the reporting date. Derivatives also include the derivative liability portion of convertible debentures and are measured using the Black-Scholes option pricing model. The fair value of convertible debentures and long-term debt approximates carrying value as these instruments bear interest at market rates. The carrying amount of the Company's other financial assets and liabilities, including cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and deferred revenue approximates their fair values due to the short-term maturity of these items.

Inputs used to calculate the fair value of derivative and convertible debentures financial instruments are classified as Level 2 inputs, inputs used to calculate contingent liabilities are classified as Level 3 inputs, and inputs for all other financial instruments for which fair value approximates carrying value are classified as Level 1 inputs.

7. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the year ended December 31, 2024 are as follows:

As at	December 31, 2024	December 31, 2023	\$ Change
Unbilled revenue	\$34,461	\$34,247	\$214
Deferred revenue - current	(5,708)	(5,806)	98
Deferred revenue - non-current	(1,574)	(621)	(953)
Net contract assets	\$27,179	\$27,820	(\$641)

Revenue recognized for the year ended December 31, 2024 that was included in deferred revenue at the beginning of the year was \$3,821 (2023- \$4,472).

8. INVENTORIES

As at	December 31, 2024	December 31, 2023	January 1, 2023
Raw materials	\$1,599	\$1,800	\$1,548
Original equipment manufacturer materials	3,557	\$4,525	4,803
Work in process	2,854	\$1,519	1,210
Finished goods	2,133	\$2,916	2,515
	\$10,143	\$10,760	\$10,076

During the year, inventories expensed within direct cost of revenues were \$16,367 (2023 - \$15,100). Write-downs of inventory that were included in direct cost of revenues for the year were \$167 (2023 - \$58). Reversals of write-downs recognized during the year were \$29 (2023 - \$56).

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company has leases for corporate offices, production facilities, vehicles and equipment used in operations. These leases have remaining lease terms ranging from 3 months to 10 years, some of which include options to extend the leases for up to 14 years or to terminate the lease with notice periods of 120 days to 6 months or at predetermined dates as specified within the lease contract. The Company has classified the assets related to these leases as ROU assets and the liabilities associated with the future lease payments under these leases as lease liabilities. The following table provides details of changes in the Company's ROU assets:

	Buildings	Vehicles and Operations Equipment	Total
Cost			
Balance, January 1, 2023	\$13,209	\$367	\$13,576
Additions	1,529	-	1,529
Disposals	(2,419)	(85)	(2,504)
Foreign currency translation	221	10	231
Balance, December 31, 2023	12,540	292	12,832
Additions	1,315	-	1,315
Disposals	-	(108)	(108)
Foreign currency translation	(341)	(11)	(352)
Balance, December 31, 2024	\$13,514	\$173	\$13,687
Accumulated Depreciation and Impairment			
Balance, January 1, 2023	\$5,741	\$235	\$5,976
Depreciation	1,520	70	1,590
Disposals	(1,388)	(85)	(1,473)
Impairment	1,356	-	1,356
Foreign currency translation	90	5	95
Balance, December 31, 2023	7,319	225	7,544
Depreciation	1,403	47	1,450
Disposals	-	(108)	(108)
Foreign currency translation	(230)	(4)	(234)
Balance, December 31, 2024	\$8,492	\$160	\$8,652
Net Book Value			
Balance, January 1, 2023	\$7,468	\$132	\$7,600
Balance, December 31, 2023	\$5,221	\$67	\$5,288
Balance, December 31, 2024	\$5,022	\$13	\$5,035

The Company recognized depreciation expense of \$nil in discontinued operations during the year ended December 31, 2024 (2023 - \$72).

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

The following table provides details of changes in the Company's lease liabilities:

Balance, January 1, 2023	\$9,040
Additions	1,529
Disposals	(1,039)
Interest	365
Payments	(2,359)
Foreign currency translation	145
Balance, December 31, 2023	7,681
Additions	1,295
Interest	420
Payments	(2,412)
Foreign currency translation	(141)
Balance, December 31, 2024	\$6,843

As at	December 31, 2024
Maturities of lease liabilities:	
2025	\$2,391
2026	2,020
2027	1,567
2028	989
2029	567
Thereafter	193
Total lease payments	7,727
Less imputed interest	884
Total	\$6,843

Composed of:	December 31, 2024	December 31, 2023	January 1, 2023
Current portion of lease liabilities	\$2,040	\$1,954	\$1,924
Long-term lease liabilities	4,803	5,727	7,116
Lease liabilities as at December 31, 2024	\$6,843	\$7,681	\$9,040

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements	Computer Equipment and Software	Furniture and Fixtures	Machinery and Equipment	Land and Building	Total
Cost						
Balance, January 1, 2023	\$371	\$4,814	\$1,791	\$3,341	\$539	\$10,856
Additions	116	284	7	1,233	-	1,640
Disposals	(168)	(1,849)	(567)	(1,044)	(539)	(4,167)
Foreign currency translation	7	108	20	68	-	203
Balance, December 31, 2023	326	3,357	1,251	3,598	-	8,532
Additions	2	143	7	1,238	-	1,390
Acquisitions through business combinations	-	-	31	-	-	31
Disposals	-	(28)	(7)	(444)	-	(479)
Foreign currency translation	(5)	(7)	-	(20)	-	(32)
Balance, December 31, 2024	\$323	\$3,465	\$1,282	\$4,372	\$ -	\$9,442
Accumulated Depreciation and Impairment						
Balance, January 1, 2023	\$192	\$3,216	\$1,172	\$1,121	\$51	\$5,752
Depreciation	36	537	165	859	14	1,611
Impairment	-	16	3	324	-	343
Disposals	(58)	(1,835)	(530)	(937)	(65)	(3,425)
Foreign currency translation	4	54	22	35	-	115
Balance, December 31, 2023	174	1,988	832	1,402	-	4,396
Depreciation	27	505	134	872	-	1,538
Disposals	-	(28)	(7)	(401)	-	(436)
Foreign currency translation	5	7	1	(30)	-	(17)
Balance, December 31, 2024	\$206	\$2,472	\$960	\$1,843	\$ -	\$5,481
Net Book Value						
Balance, January 1, 2023	\$179	\$1,598	\$619	\$2,220	\$488	\$5,104
Balance, December 31, 2023	\$152	\$1,369	\$419	\$2,196	\$ -	\$4,136
Balance, December 31, 2024	\$117	\$993	\$322	\$2,529	\$ -	\$3,961

Depreciation expense of \$nil was recognized in discontinued operations during the year ended December 31, 2024 (2023 - \$7).

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

11. INTANGIBLE ASSETS

	Patents	Developed Software	Customer Relationships, Trade Name, Non-competition Agreements and Backlog	Total
Cost				
Balance, January 1, 2023	\$317,378	\$39,639	\$71,598	\$428,615
Additions	-	3,395	-	3,395
Disposals	(316,074)	-	-	(316,074)
Foreign currency translation	41	183	414	638
Balance, December 31, 2023	1,345	43,217	72,012	116,574
Additions	255	3,968	-	4,223
Acquisitions through business combinations	1,440	-	2,185	3,625
Foreign currency translation	(29)	(1)	(24)	(54)
Balance, December 31, 2024	\$3,011	\$47,184	\$74,173	\$124,368
Accumulated Amortization and Impairment				
Balance, January 1, 2023	\$297,034	\$9,965	\$17,452	\$324,451
Amortization	4,630	2,355	6,054	13,039
Impairment	224	-	286	510
Disposals	(301,051)	-	-	(301,051)
Foreign currency translation	(9)	197	345	533
Balance, December 31, 2023	828	12,517	24,137	37,482
Amortization	378	3,179	4,916	8,473
Foreign currency translation	22	1	20	43
Balance, December 31, 2024	\$1,228	\$15,697	\$29,073	\$45,998
Net Book Value				
Balance, January 1, 2023	\$20,344	\$29,674	\$54,146	\$104,164
Balance, December 31, 2023	\$517	\$30,700	\$47,875	\$79,092
Balance, December 31, 2024	\$1,783	\$31,487	\$45,100	\$78,370

The Company recognized amortization expense in discontinued operations of \$nil during the year ended December 31, 2024 (2023 - \$4,452). In addition, impairment losses of \$nil were recognized by the Company during the year ended December 31, 2024 (2023 - \$510).

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

12. INVESTMENT IN JOINT VENTURE

	December 31, 2024	December 31, 2023
Balance, beginning of year	\$5,054	\$5,712
Currency loss on financial statement translation	(164)	(416)
Company's share of (loss) earnings (recorded in other income - Note 21)	(220)	375
Dividend received	-	(617)
Sale of 50% interest in joint venture	(4,670)	-
Balance, end of year	\$ -	\$5,054

Xuzhou-PAT Control Technologies Limited ("XPCT") is a joint venture in China in which the Company's subsidiary, International Road Dynamics Inc. ("IRD"), held a 50% interest. During the quarter ended December 31, 2024, the Company signed a share purchase agreement to sell its 50% interest in XPCT, to its former joint venture partner, for gross proceeds of \$4,810 (34,761 yuan). The Company realized gross cash proceeds of \$4,386, for a gain of \$708, including closing costs. In addition to cash proceeds received during the year ended December 31, 2024, IRD had a remaining receivable of \$319 after tax, which was subsequently received on January 14, 2025.

IRD had no sales to XPCT during the year ended December 31, 2024 (2023- \$8). As at December 31, 2024, XPCT had no amounts owing to IRD (2023 - \$nil).

As at December 31, 2024, following the divestiture of XPCT, IRD no longer holds the outstanding 100% joint and several liability guarantee to XPCT. As at December 31, 2023, the loan amount of 15,000 yuan was the equivalent of \$2,119. The amount owing represented the maximum amount available to be drawn under this facility.

The Company's ownership interest comprised a 50% share of net assets and net earnings of XPCT as well as purchase price adjustments to allocate fair values assigned to certain assets and liabilities at the time of acquisition. Summary financial information for XPCT is as follows:

As at	December 31, 2024	December 31, 2023	January 1, 2023
Cash	\$ -	\$226	\$329
Other current assets	-	18,737	29,872
Non-current assets	-	403	665
Current liabilities	-	-	-
Accounts payable and accrued liabilities	-	(5,657)	(10,753)
Short-term loans	-	(2,334)	(7,255)
Non-current liabilities	-	(1,267)	(1,434)
Net assets - 100%	\$ -	\$10,108	\$11,424
Net assets attributable to the Company - 50%	\$ -	\$5,054	\$5,712

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

12. INVESTMENT IN JOINT VENTURE (continued)

	Year ended December 31,	
	2024	2023
Revenues	\$24,110	\$32,013
Direct cost of revenues	(20,776)	(27,226)
Depreciation and amortization	(931)	(1,488)
Finance expense	(352)	(1,544)
Other expenses	(2,587)	(875)
(Loss) income before income taxes	(536)	880
Income tax (recovery) expense	(96)	131
Net (loss) income - 100%	(\$440)	\$749
Net (loss) income attributable to the Company - 50%	(\$220)	\$375

13. INVESTMENT IN OTHER ENTITY

On June 15, 2023, as part of the consideration for the sale of WiLAN, the Company retained a 10% equity stake in WiLAN. The investment is recorded at fair value using Level 3 inputs, with changes in fair value recognized through profit or loss. As at December 31, 2024, the investment in WiLAN is valued at \$3,919 (2023 - \$2,898).

14. DEFERRED COMPENSATION

The Company's subsidiary, Electronic Transaction Consultants, LLC ("ETC"), provides a deferred compensation plan that enables upper-level management and executives to defer compensation until retirement. ETC funds these deferred compensation liabilities by making contributions to a trust invested in various mutual funds, presented as a deferred compensation asset on the consolidated statements of financial position.

15. GOODWILL

The changes in the carrying amount of goodwill by segment are presented in the table below:

	Note	Licensing	Intelligent Transportation Systems	Total
Balance, January 1, 2023		\$12,622	\$28,934	\$41,556
Disposals	5	(12,347)	-	(12,347)
Foreign currency translation		(275)	85	(190)
Balance, December 31, 2023		-	29,019	29,019
Acquisitions	4	-	2,105	2,105
Foreign currency translation		-	(164)	(164)
Balance, December 31, 2024		\$ -	\$30,960	\$30,960

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

15. GOODWILL (continued)

In accordance with the IFRS guidance related to goodwill, the Company is required to assess the carrying amount of its goodwill for potential impairment annually or more frequently if events or a change in circumstances indicate that impairment may have occurred. The Company tests goodwill for impairment annually at year-end using data as of December 31 of that year at the level of the group of CGUs to which the goodwill is allocated, which corresponds with the corresponding operating segment. On June 15, 2023, the Company sold WiLAN, which represented the Company's Licensing segment as disclosed in Note 5, *Discontinued Operations*.

The recoverable amount of the CGU to which the goodwill belongs is determined as the greater of fair value less cost of disposal, and value in use ("VIU"). To determine the recoverable amount of the CGU, a VIU approach has been taken. Calculating the VIU involves estimating the future cash inflows and outflows to be derived from the continuing use of an asset and from its ultimate disposal, and applying an appropriate discount rate to the future cash flows. The Company uses its internal forecasts to estimate future cash flows and includes an estimate of long-term future growth based on its most recent views of the long-term outlook for each business for a period of five years, and a terminal period in consideration of a long-term growth rate of 2.0%. Actual results may differ from those assumed in these forecasts. The Company derives its discount rates using a capital asset pricing model and by analyzing published rates for industries relevant to its reporting units to estimate the cost of equity financing. The Company uses discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in its internally developed forecasts. The after-tax discount rate range used in valuations as at December 31, 2024 was 14.5% to 16.0% (2023- 14%).

The results of the assessments performed as at December 31, 2024 and December 31, 2023 indicated that the recoverable amount of goodwill exceeded carrying value, and management believes that no reasonably possible change in any of the above key assumptions would have caused the carrying amount to exceed its recoverable amount.

Estimating the recoverable amount of reporting units requires the use of estimates and significant judgments that are based on a number of factors including actual operating results. It is reasonably possible that the judgments and estimates described above could change in future periods.

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	December 31, 2024	December 31, 2023	January 1, 2023
Trade payables	\$17,902	\$23,690	\$15,754
Accrued compensation	4,352	3,337	7,946
Accrued project losses	670	1,501	3,116
Accrued litigation costs	-	-	4,771
Dividends payable	-	-	1,056
Accrued contingent partner payments and legal fees	-	-	845
Other current liabilities	2,674	1,802	1,197
	\$25,598	\$30,330	\$34,685

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

17. LONG-TERM DEBT

As at	December 31, 2024	December 31, 2023	January 1, 2023
Senior term credit facility:			
\$50,000 due September 1, 2026	\$17,531	\$19,657	\$21,875
Less: current portion of long-term debt	(2,125)	(2,125)	(21,588)
Debt issuance costs, net of amortization	(133)	(220)	(287)
Total long-term debt	\$15,273	\$17,312	\$0

During the year ended December 31, 2021, Quarterhill ITS, the parent company of IRD and ETC and wholly owned subsidiary of Quarterhill, entered into a credit agreement to receive senior secured credit facilities from HSBC Bank Canada and Royal Bank of Canada consisting of a revolving credit facility in the maximum amount of \$15,000 and a term credit facility of \$50,000. These credit facilities replaced all existing facilities the Company had with HSBC Bank Canada. The effective interest rate for the facilities as at December 31, 2024 was 6.54% (2023 - 7.48%). Both the facilities have a maturity date of September 1, 2026 with a general security agreement over all of the assets in North America of IRD, ETC and its parent holding company, Quarterhill USA Inc. The carrying value of these assets as at December 31, 2024 was \$205,051.

During the year ended December 31, 2024, no amounts were drawn from the revolving credit facility. Repayments, if any amounts are drawn, on the revolving credit facility are ultimately due on the maturity date.

On June 27, 2023 (the "Amendment Date"), the Company finalized an amendment to its existing credit agreement. As of the Amendment Date, the balance on the term loan was \$21,250. The amendment modifies certain terms and conditions of the credit agreement to provide the Company with additional flexibility in its covenant and cash management, including a waiver on the Senior Leverage Ratio for all reporting periods up to March 31, 2024 (the "Covenant Relief Period") and a reduction in the revolving credit facility from \$15,000 to \$5,000. On September 6, 2024, the revolving credit facility was increased from \$5,000 to \$10,000.

Repayment of principal on the term credit facility has been renegotiated to 2.5% of the balance as at the Amendment Date per quarter up to the maturity date, upon which the remaining balance is due.

The financial covenants the Company must maintain are as follows:

- A Fixed Charge Coverage Ratio of at least 1.20 to 1.00 on a rolling four-quarter basis; and
- A Senior Leverage Ratio of not more than 3.00 to 1.00. This ratio may increase by 0.50 to 1.00 for the next two fiscal quarters immediately following an acquisition if the aggregate purchase price is equal to or greater than \$20,000.

The Company was in compliance with all covenants as at December 31, 2024.

Scheduled principal repayments on long-term debt are as follows:

	Principal
To December 31, 2025	\$2,125
To September 1, 2026	15,406
	\$17,531

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

18. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

The following table illustrates the allocation of the gross proceeds of the debentures between debt and equity at issuance and subsequent remeasurement:

	December 31, 2024	December 31, 2023	January 1, 2023
Convertible unsecured subordinated debentures:			
Gross proceeds	\$42,524	\$43,397	\$42,378
Convertible debentures, host debt component	\$37,390	\$39,122	\$36,852
Debt issuance costs, net of amortization	(565)	(926)	(1,197)
Convertible debentures	\$36,825	\$38,196	\$35,655
Convertible debentures, derivative liability component, opening	\$2,290	\$1,316	\$6,958
Currency (gain) loss on financial statement translation	(100)	61	-
Change in fair value of derivative liability	(1,674)	913	(5,642)
Derivative liability, ending	\$516	\$2,290	\$1,316

On October 27, 2021, the Company completed a brokered financing of Can\$57,500 by way of the issuance of unsecured subordinated convertible debentures (the “Debentures”), which includes the full exercise of a Can\$7,500 over-allotment option by the underwriters. The Debentures are traded on the TSX under the symbol “QTRH.DB”.

The Debentures have a coupon rate of 6%, payable semi-annually, with a maturity date of October 30, 2026 (the “Maturity Date”) and an initial conversion price into common shares of Can\$3.80. Each Debenture is convertible into common shares of the Company at the option of the holder at any time prior to the close of business on the earlier of the last business day immediately preceding the Maturity Date. Holders converting their Debentures will, in addition to the applicable number of common shares to be received on conversion, receive accrued and unpaid interest, if any, thereon for the period from the last interest payment date on their Debentures up to, but excluding, the date of conversion. Except in certain circumstances involving a “Change of Control”, the Debentures will not be redeemable at the option of the Company before October 31, 2024. On or after October 31, 2024 and prior to October 31, 2025, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days’ and not less than 30 days’ prior notice at a price equal to the principal amount plus accrued and unpaid interest, provided that the volume-weighted average trading price of the common shares on the TSX for 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the then conversion price. On or after October 31, 2025 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days’ and not less than 30 days’ prior notice at a price equal to their principal amount plus accrued and unpaid interest.

Effective January 1, 2024, the Company adopted amendments to paragraphs 69 - 76 of IAS 1. Due to the adoption of the amendments, convertible debentures and derivative liability have been retrospectively classified as current liabilities. See Note 3, *Accounting Standards*.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

18. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (continued)

Assuming the conversion of all the Debentures, the Company will issue 15,131,579 common shares. The initial fair value of the conversion option was estimated at Can\$9,533. The conversion option is considered a derivative because the exercise price is in Canadian dollars whereas the Company's functional currency is US dollars. Accordingly, the Company recognizes the conversion option as a liability at fair value with changes in fair value recognized through profit or loss. The fair value of the conversion option is calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

As at	December 31, 2024	December 31, 2023	January 1, 2023
Risk-free rate	3.25%	5.00%	3.89%
Expected life (in years)	1.83	2.83	3.80
Expected volatility	41%	40%	38%
Expected dividend yield	0.0%	0.0%	2.0%
Share price	Can\$1.64	Can\$1.95	Can\$1.58

19. SHARE CAPITAL

The share capital of the Company consists of the following:

	Issued and Outstanding		
	Authorized	December 31, 2024	December 31, 2023
a) Common shares, with no par value	Unlimited	115,786,320	115,076,583
b) Special preferred, redeemable, retractable, non-voting shares	6,350.90	Nil	Nil
c) Preferred shares, issuable in series	Unlimited	Nil	Nil

	Number
January 1, 2023	114,639,700
Issuance of common shares upon vesting of restricted stock units	278,915
Conversion of deferred stock units to common shares	51,168
Exercise of stock options	106,800
December 31, 2023	115,076,583
Issuance of common shares upon vesting of restricted stock units	664,348
Conversion of deferred stock units to common shares	45,389
December 31, 2024	115,786,320

The Company paid quarterly cash dividends as follows:

	2024		2023	
	Per Share	Total	Per Share	Total
1st quarter	\$ -	\$ -	\$0.0092	\$1,060
	\$ -	\$ -	\$0.0092	\$1,060

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

19. SHARE CAPITAL (continued)

Stated capital reduction

On May 8, 2023, the Company's shareholders approved a reduction of the stated capital of the Company in the amount of Can\$120,000 or \$87,948. The purpose of the stated capital reduction was to grant the Board of Directors more flexibility in capital management, specifically in relation to its ability to distribute dividends. The reduction in stated capital was offset by a corresponding increase in contributed surplus.

Stock-based compensation

At the annual and special meeting of shareholders held on April 18, 2018, Quarterhill's shareholders approved the adoption of the Company's 2018 Equity Incentive Plan (the "Equity Plan"). As at December 31, 2024, the Company had options to purchase up to 4,171,040 common shares outstanding.

During the year ended December 31, 2024, the Company granted no options. During the year ended December 31, 2023, the Company granted options to purchase 250,000 common shares at exercise price of \$1.25. The Company used the Black-Scholes model for estimating the fair value of options granted with the following weighted average assumptions for the options granted in 2023:

	2023
Risk-free rate	3.22%
Volatility	41.74%
Expected option life (in years)	4.17
Expected dividend yield	3.75%
Forfeiture rate	31.15%

The table below illustrates the options activity for the years ended December 31, 2024 and 2023:

	Options Outstanding			Exercisable Options	
	Number of Options	Price* Range	Weighted Average Exercise Price*	Number	Weighted Average Exercise Price*
January 1, 2023	8,669,951	\$1.33 - \$2.84	\$2.02	2,978,725	\$2.04
Granted	250,000	1.25	1.25		
Forfeited	(1,040,922)	1.81 - 2.70	2.28		
Expired	(2,144,100)	1.33 - 2.70	2.12		
Exercised	(106,800)	1.33	1.33		
December 31, 2023	5,628,129	\$1.25 - \$2.70	\$2.09	4,682,956	\$2.05
Forfeited	(928,334)	1.81 - 2.70	2.42		
Expired	(528,755)	1.81 - 2.14	2.03		
December 31, 2024	4,171,040	\$1.25 - \$2.70	\$2.02	3,908,101	\$2.01

*In Canadian dollars

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

19. SHARE CAPITAL (continued)

The weighted average fair value per option granted during the year ended December 31, 2023 was \$0.41.

The intrinsic value of the exercisable options was \$98 as at December 31, 2024 (2023- \$330). The total fair value of options vested was \$nil for the year ended December 31, 2024 (2023 - \$66).

As at December 31, 2024, there was \$nil (2023 - \$102) of total unrecognized stock-based compensation cost, net of expected forfeitures, related to unvested stock-based compensation arrangements granted under the stock option plan. Details of the outstanding options as at December 31, 2024 are as follows:

Range of Exercise Prices*	Outstanding Options at December 31, 2024	Remaining Term of Options in Years	Weighted Average Exercise Price*	Exercisable Options at December 31, 2024	Weighted Average Exercise Price*
\$1.25	250,000	4.46	\$1.25	250,000	\$1.25
1.26 - 1.99	2,157,663	1.22	1.91	2,157,663	1.91
2.00 - 2.49	1,388,377	2.76	2.16	1,125,438	2.16
2.50 - 2.70	375,000	2.64	2.69	375,000	2.69
\$1.25 - \$2.70	4,171,040	2.05	\$2.02	3,908,101	\$2.01

*In Canadian dollars

Restricted stock units

During the year ended December 31, 2024, the Company granted RSUs valued using the most recent TSX closing price for the common shares on the date of grant as follows:

	Number	Price*	Amount
March 20, 2024	513,046	\$1.85	\$701
May 13, 2024	50,000	1.65	61
June 17, 2024	400,000	1.86	544
November 11, 2024	180,000	1.59	204
December 11, 2024	225,000	1.73	271
	1,368,046		\$1,781

*In Canadian dollars

For the year ended December 31, 2024, the Company has recognized \$913 in stock-based compensation expense as a result.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

19. SHARE CAPITAL (continued)

RSU activity for the years ended December 31, 2024 and 2023 was as follows:

	Number
January 1, 2023	422,863
Granted	1,000,715
Settled	(420,103)
Forfeited	(129,847)
December 31, 2023	873,628
Granted	1,368,046
Settled	(922,074)
Forfeited	(223,532)
December 31, 2024	1,096,068

Deferred stock units

The following table provides the dates and number of DSUs granted:

	Number
June 17, 2023	661,600
September 6, 2023	60,259
September 15, 2023	45,389
	767,248
June 20, 2024	390,163
December 31, 2024	18,109
	1,175,520

For the year ended December 31, 2024, the Company has recognized \$567 (2023 - \$463) in stock-based compensation expense as a result.

DSU activity for the years ended December 31, 2024 and 2023 was as follows:

	Number
January 1, 2023	-
Granted	767,248
Settled	(98,400)
December 31, 2023	668,848
Granted	408,272
Settled	(45,389)
December 31, 2024	1,031,731

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

20. IMPAIRMENT AND OTHER CHARGES

Other charges within the consolidated statements of loss and comprehensive loss include costs that relate to certain cost reduction initiatives that the Company has undertaken from time to time, acquisition and divestiture related costs and other charges. During the years ended December 31, 2024 and 2023, the Company recognized other charges as follows:

	Year ended December 31,	
	2024	2023
Severance costs	\$2,008	\$2,158
Acquisition-related costs	383	-
Loss on disposal	-	2,750
Impairment losses	-	2,181
Other charges	\$2,391	\$7,089

The acquisition-related costs resulted from the purchase of Red Fox – see Note 4, *Business Combinations*.

21. OTHER INCOME

During the years ended December 31, 2024 and 2023, the Company recognized other income as follows:

	Year ended December 31,	
	2024	2023
Dividend received from WiLAN	\$3,849	\$ -
Change in fair value of investment in associated entity (Note 13)	1,021	-
Gain on sale of XPCT (Note 12)	708	-
Equity (loss) earnings from joint venture (Note 12)	(220)	375
Other income	904	342
Other income	\$6,262	\$717

22. LOSS PER SHARE

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing net loss by the adjusted weighted average number of common shares outstanding to assume conversion of all potential dilutive stock options to common shares.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

22. LOSS PER SHARE (continued)

	Year ended December 31,	
	2024	2023
Numerator:		
Net loss from continuing operations	(\$11,022)	(\$32,407)
Net loss from discontinued operations	-	(13,789)
Net loss	(\$11,022)	(\$46,196)
Denominator:		
Weighted average number of common shares outstanding for basic loss per share	115,369,947	114,776,086
Weighted average number of common shares outstanding for diluted loss per share	115,369,947	114,776,086
From continuing operations	(\$0.10)	(\$0.28)
From discontinued operations	-	(0.12)
Basic loss per share	(\$0.10)	(\$0.40)
From continuing operations	(\$0.10)	(\$0.28)
From discontinued operations	-	(0.12)
Diluted loss per share	(\$0.10)	(\$0.40)

23. SEGMENT REPORTING

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, and for which discrete financial information is available. The operating results of all operating segments are reviewed regularly by the Company's Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess their performance. The Company's CODM is the Chief Executive Officer. The Company's operating segments are organized on the basis of products and services provided and also represent its reportable segments. The Company's reportable segments were previously identified as Licensing and ITS. WiLAN represented the Licensing segment and was sold on June 15, 2023. The results of WiLAN have been presented as discontinued operations in the Company's consolidated financial statements in Note 4, *Discontinued Operations*. The Company's consolidated statements of loss and comprehensive loss reflect the sole ITS segment.

The following table includes revenue by contracts disaggregated by the timing of revenue recognition:

	Year ended December 31,	
	2024	2023
Revenue recognized at a point in time	\$17,753	\$14,252
Revenue recognized over time	135,552	129,735
Total revenues	\$153,305	\$143,987

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

23. SEGMENT REPORTING (continued)

Revenues by geography for the years ended December 31, 2024 and 2023 are as follows:

	Year ended December 31,	
	2024	2023
United States	\$136,621	\$128,373
Canada	4,021	2,407
Thailand	2,880	336
Germany	2,568	2,805
Korea	1,773	1,054
France	802	595
Belgium	623	707
Chile	118	3,129
Rest of the world	3,899	4,581
Total revenues	\$153,305	\$143,987

The total of property, plant and equipment, right-of-use assets, intangible assets, and goodwill by geography are as follows:

As at	December 31, 2024	December 31, 2023
United States	\$106,206	\$109,503
Great Britain	5,445	-
Germany	3,392	4,164
Canada	3,063	3,804
Belgium	220	64
Total	\$118,326	\$117,535

Major customers

A major customer is defined as an external customer whose transactions amount to approximately 10% or greater of the Company's revenue. There was one major customer totaling \$27,349 for the year ended December 31, 2024, whereas for the year ended December 31, 2023, there was one major customer that accounted for \$25,857 of total revenues.

Remaining performance obligations

As at December 31, 2024, the amount of transaction price allocated to remaining performance obligations was \$141,403. The Company expects to recognize approximately 53% of this revenue in 2025, 19% in 2026, and 28% thereafter.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

24. EXPENSE BY NATURE

	Year ended December 31,	
	2024	2023
Personnel costs	\$55,785	\$53,148
Subcontractor fees	50,467	42,059
Direct and indirect materials costs	20,534	23,687
Communications and information technology	12,672	11,629
Professional and outside services	6,082	6,531
Travel and entertainment	4,690	3,464
Facilities	3,915	1,831
Other administrative expenses	1,246	650
Depreciation of right-of-use assets	1,450	1,518
Depreciation of property, plant and equipment	1,538	1,604
Amortization of intangible assets	8,473	8,587
Impairment and other charges	2,391	7,089
Total direct cost of revenues and operating expenses	\$169,243	\$161,797
Salaries and wages	\$41,477	\$41,635
Employee benefits	8,603	7,942
Stock-based compensation	2,319	1,246
Bonuses	1,980	1,579
Other personnel costs	1,406	746
Total personnel costs	\$55,785	\$53,148

25. TAXES

The reconciliation of the expected provision for income tax expense to the actual provision for income tax expense reported in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2024 and 2023, is as follows:

	Year ended December 31,	
	2024	2023
Loss before taxes	(\$9,975)	(\$24,943)
Canadian statutory income tax rate	26.50%	26.50%
Expected income tax recovery	(\$2,643)	(\$6,610)
Permanent differences	(312)	279
Foreign rate differential	500	535
Return to provision	(62)	308
Change in benefit of tax assets not recognized	3,631	12,016
Other	(67)	936
Income tax expense	\$1,047	\$7,464

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

25. TAXES (continued)

The income tax expense is as follows:

	Year ended December 31,	
	2024	2023
Current income tax (recovery) expense		
Current period	\$440	\$(2,254)
	440	(2,254)
Deferred income tax expense		
Current period	607	9,718
	607	9,718
	\$1,047	\$7,464

The effects of temporary differences, tax losses, and tax credits that give rise to significant components of the Company's deferred income tax assets and liabilities, which have been recognized during the years ended December 31, 2024 and 2023, are as follows:

As at	December 31, 2024	December 31, 2023
Deferred income tax assets		
Tax loss carryforwards	\$1,511	\$1,138
Capital assets	1,525	1,752
Other temporary differences	2,082	2,185
Deferred income tax assets	5,118	5,075
Deferred income tax liabilities		
Capital assets	(6,036)	(4,937)
Other temporary differences	(1,659)	(1,359)
Deferred income tax liabilities	(7,695)	(6,296)
Deferred income tax liabilities, net	(\$2,577)	(\$1,221)

The Company is required to assess whether it is probable that it will realize the benefits of its deferred tax assets based on consideration of all available evidence. The factors the Company uses to assess the likelihood of realization are its history of losses, forecasts of future pre-tax income, and tax planning strategies that could be implemented to realize the deferred tax assets. Accordingly, available deferred income tax assets in the amount of \$22,953 were not recognized as it is not probable that future taxable income will be available to the Company to utilize the benefits.

The amount of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the consolidated statements of financial position for the year ended December 31, 2024 is as follows:

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

25. TAXES (continued)

As at	December 31, 2024	December 31, 2023
Tax loss carryforwards	\$60,775	\$39,620
Capital assets	1,060	8,594
Tax credits	2,095	2,186
Other deductible temporary differences	23,656	24,733
	\$87,586	\$75,133

As at December 31, 2024, the Company had unused non-capital tax losses of approximately \$66,278 (2023 - \$42,901) that are due to expire as follows:

Expiry	SR&ED pool	Canadian Tax Losses	US Tax Losses	Other Jurisdictions	Consolidated Tax Losses
2038	\$ -	\$2,893	\$ -	\$ -	\$2,893
2039	-	219	-	-	219
2040	-	2,076	-	-	2,076
2041	-	-	-	-	-
2042	-	-	-	-	-
2043	-	41	-	-	41
2044	-	-	-	-	-
Indefinite	22,673	-	59,031	2,018	61,049
	\$22,673	\$5,229	\$59,031	\$2,018	\$66,278

The Company has investment tax credits of \$2,095 that expire in various amounts from 2024 to 2043. Investment tax credits, which are earned as a result of qualifying SR&ED expenditures, are recognized and applied to reduce income tax expense in the year in which the expenditures are made and their realization is reasonably assured.

As at December 31, 2024, the Company had temporary differences of \$3,651 (2023 - \$2,162) associated with investments in subsidiaries for which no deferred tax liabilities have been recognized, as the Company is able to control the timing of the reversal of these temporary differences and it is not probable that these differences will reverse in the foreseeable future.

26. FINANCIAL RISK MANAGEMENT

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable and unbilled revenue. The Company recognizes a loss allowance provision using the simplified approach based on lifetime expected credit losses. The Company's exposure to credit risk with its accounts receivable from customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part large multinational companies or government organizations that

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (continued)

do not have a history of non-payment. Credit risk from accounts receivable encompasses the default risk of the Company's customers. Prior to entering into transactions with new customers, the Company assesses the risk of default associated with the particular customer. In addition, on an ongoing basis, management monitors the level of accounts receivable attributable to each customer and the length of time taken for amounts to be settled and, where necessary, takes appropriate action to follow up on those balances considered overdue. The Company has had no significant bad debts for any periods presented.

The following table provides an aging analysis of trade accounts receivable. The age of an invoice does not necessarily indicate an account is past due as many contracts for system revenue require the successful completion of system testing and acceptance.

As at	December 31, 2024	December 31, 2023
Current	\$1,185	\$483
1-30 days	8,595	16,473
31-60 days	6,142	4,270
61-90 days	2,011	1,616
91 days and over	3,089	4,630
Less expected credit loss	(306)	(181)
Accounts receivable	20,716	27,291
Long-term accounts receivable	4,781	4,364
Total accounts receivable	\$25,497	\$31,655

None of the amounts outstanding have been challenged by the respective counterparties, and the Company continues to conduct business with them on an ongoing basis. Accordingly, management has no reason to believe that these balances are not fully collectable in the future.

The Company reviews financial assets on an ongoing basis with the objective of identifying potential matters that could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective customer to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company manages its liquidity needs through various sources including cash generated through operations, cash reserves, various revolving credit facilities, and the issuance of common shares. The Company's cash and cash equivalents, short-term investments, and restricted short-term investments consist primarily of deposit investments that are held primarily with chartered banks in Canada and United States. Management does not expect any counterparties to fail to meet their obligations.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (continued)

The table below presents a maturity analysis of the Company's financial liabilities:

	Total	To December 31, 2025	To December 31, 2026	To December 31, 2027	Thereafter
Accounts payable and accrued liabilities	\$25,598	\$25,598	\$ -	\$ -	\$ -
Long-term debt	17,531	2,125	15,406	-	-
Convertible debentures	42,524	-	42,524	-	-
Lease liabilities	7,727	2,391	2,020	1,567	1,749
	<u>\$93,380</u>	<u>\$30,114</u>	<u>\$59,950</u>	<u>\$1,567</u>	<u>\$1,749</u>

See Note 9 for maturity of lease liabilities.

Market risk

Market risk is the risk to the Company that the fair value of future cash flows from its financial instruments will fluctuate due to changes in interest rates and foreign currency exchange rates. Market risk arises as a result of the Company generating revenues from foreign currency transactions.

Interest rate risk

The financial instruments that expose the Company to interest rate risk are its cash and cash equivalents, short-term investments and long-term debt. The Company's objectives of managing its cash and cash equivalents and short-term investments are to ensure sufficient funds are maintained on hand at all times to meet day-to-day requirements and to place any amounts that are considered in excess of day-to-day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents into short-term investments, the Company only places investments with Canadian chartered banks and ensures that access to the amounts placed can be obtained on short notice. A 1% increase or decrease in interest rates would not have resulted in a material increase or decrease in interest income or expense during the year ended December 31, 2024.

Currency risk

Portions of the Company's revenues and operating expenses are denominated in Canadian dollars, euros and British pounds. Because these consolidated financial statements are reported in US dollars, the Company's operating results are subject to changes in the exchange rate of the foreign currencies (primarily Canadian dollars and euros) relative to the US dollar. For instance, a decrease in the value of the Canadian dollar relative to the US dollar has an unfavourable impact on Canadian dollar denominated revenues and a favourable impact on Canadian dollar denominated direct cost of revenue and operating expenses. Approximately 17% of the Company's cash and cash equivalents are denominated in Canadian dollars, euros and British pounds, and are subject to changes in the exchange rate of the Canadian dollar, euro and British pound relative to the US dollar.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign exchange gains or losses in net loss arise on the translation of foreign currency-denominated assets and liabilities held in the Company's North American operations and foreign subsidiaries. Subsidiary companies with a functional currency not in US dollars are subject primarily to changes in the exchange rate of foreign currencies, primarily the Canadian dollar.

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

26. FINANCIAL RISK MANAGEMENT (continued)

As at December 31, 2024, the Company's sensitivity to a 5% strengthening (weakening) of the Canadian dollar and all other currencies relative to the US dollar for which the functional currency of the subsidiary company differs from the Canadian dollar would result in approximately \$290 of pre-tax loss to the consolidated statements of loss and comprehensive loss.

27. RELATED-PARTY TRANSACTIONS

These consolidated financial statements include the accounts of Quarterhill and its wholly owned subsidiaries. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions and balances with XPCT, a joint venture in China in which the Company's subsidiary IRD holds a 50% interest, which is also a related party, are disclosed in Note 12.

Key management personnel are Quarterhill's President & Chief Executive Officer; Chief Financial Officer; Executive Vice President, Strategic Initiatives; and Executive Vice President, Project Management Office and the Chief Executive Officers of each of IRD and ETC. Other related parties are close family members of the key management personnel and entities controlled by key management personnel.

The executive compensation expense to key management personnel is as follows:

	Year ended December 31,	
	2024	2023
Salaries and benefits	\$3,197	\$3,585
Stock-based compensation	586	704
	\$3,783	\$4,289

28. CAPITAL MANAGEMENT

The Company's capital management objectives are to maintain financial flexibility in order to pursue its strategy of organic acquisitional growth, pay dividends, and, from time to time, return capital to shareholders, while maintaining an adequate return for shareholders. The Company defines its capital as the aggregate of cash and cash equivalents, long-term debt, convertible debentures and shareholders' equity.

	December 31, 2024	December 31, 2023
Current portion of long-term debt	\$2,125	\$2,125
Non-current portion of long-term debt	15,273	17,312
Convertible debentures	36,825	38,196
Long-term debt and convertible debentures, net of debt issuance costs	54,223	57,633
Less:		
Cash and cash equivalents	(31,893)	(42,733)
Net debt	22,330	14,900
Shareholders' equity	131,123	143,440
Total capital management	\$207,676	\$215,973

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

28. CAPITAL MANAGEMENT (continued)

The Company manages its capital structure in accordance with changes in economic conditions. To maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to a normal course issuer bid or substantial issuer bid, issue new shares, or raise or retire debt. The Company is subject to covenants and restrictions related to its credit facilities as further described in Note 17, *Long-term Debt*.

29. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	Year ended December 31,	
	2024	2023
Accounts receivable	\$6,177	(\$10,351)
Unbilled revenue	(214)	(4,657)
Income taxes receivable	(231)	251
Inventories	617	(684)
Prepaid expenses and deposits	207	(1,163)
Deferred revenue	855	(1,086)
Deferred compensation asset	(98)	39
Deferred compensation liabilities	155	83
Accounts payable and accrued liabilities	(4,732)	4,535
Income taxes payable	(328)	249
	\$2,408	(\$12,784)

Supplemental cash flow information

	Year ended December 31,	
	2024	2023
Net interest paid in cash	\$3,733	\$3,578
Taxes paid	\$559	\$406

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

30. EFFECT OF THE CHANGE IN PRESENTATION CURRENCY

The effects of the change in presentation currency discussed in note 2 above were as follows.

	Year ended December 31, 2023			
	USD		Previously reported in CAD	
	(restated, note 2)			
Revenues	US\$	\$143,987	C\$	\$194,316
Direct cost of revenues		113,882		153,719
Gross profit		30,105		40,597
Operating expenses				
Selling, general and administrative expenses		25,954		35,025
Research and development expenses		3,163		4,268
Depreciation of right-of-use assets		1,518		2,047
Depreciation of property, plant and equipment		1,604		2,163
Amortization of intangible assets		8,587		11,590
Other charges		7,089		9,619
		47,915		64,712
Results from operations		(17,810)		(24,115)
Finance income		(1,019)		(1,379)
Finance expense		6,714		9,058
Foreign exchange loss		1,264		1,732
Other income		(717)		(996)
Change in fair value of derivative liability		891		1,248
Loss before taxes		(24,943)		(33,778)
Current income tax recovery		(2,254)		(3,021)
Deferred income tax expense		9,718		13,045
Income tax expense		7,464		10,024
Net loss from continuing operations		(32,407)		(43,802)
Net loss from discontinued operations		(13,789)		(21,809)
Net loss	US\$	(46,196)	C\$	(65,611)
Other comprehensive loss that may be reclassified subsequently to net loss:				
Foreign currency translation adjustment		(276)		(2,101)
Comprehensive loss	US\$	(\$46,472)	C\$	(\$67,712)
Loss per share - Basic				
From continuing operations	US\$	(\$0.28)	C\$	(\$0.38)
From discontinued operations		(0.12)		(0.19)
Loss per share - Basic	US\$	(\$0.40)	C\$	(\$0.57)
Loss per share - Diluted				
From continuing operations	US\$	(\$0.28)	C\$	(\$0.38)
From discontinued operations		(0.12)		(0.19)
Loss per share - Diluted	US\$	(\$0.40)	C\$	(\$0.57)

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

30. EFFECT OF THE CHANGE IN PRESENTATION CURRENCY (continued)

As at	December 31, 2023				January 1, 2023			
	USD		Previously reported in CAD		USD		Previously reported in CAD	
	(restated, note 2)				(restated, note 2)			
Current assets								
Cash and cash equivalents	US\$	\$42,733	C\$	\$56,621	US\$	\$48,905	C\$	\$66,357
Short-term investments		-		-		1,142		1,550
Restricted short-term investments		-		-		4,812		6,529
Accounts receivable, net		27,291		36,160		17,155		23,277
Unbilled revenue		34,247		45,377		30,529		41,423
Income taxes receivable		-		-		251		340
Inventories (net of obsolescence)		10,760		14,257		10,076		13,671
Prepaid expenses and deposits		4,795		6,353		5,050		6,852
		119,826		158,768		117,920		159,999
Non-current assets								
Accounts and other long-term receivables		4,364		5,782		397		539
Long-term prepaid expenses and deposits		-		-		1,257		1,705
Right-of-use assets, net		5,288		7,006		7,600		10,312
Property, plant and equipment, net		4,136		5,480		5,104		6,926
Intangible assets, net		79,092		104,795		104,164		141,335
Investment in joint venture		5,054		6,696		5,712		7,751
Investment in other entity		2,898		3,840		-		-
Deferred compensation asset		952		1,262		991		1,344
Deferred income tax assets		-		-		18,903		25,648
Goodwill		29,019		38,450		41,556		56,385
		130,803		173,311		185,684		251,945
TOTAL ASSETS	US\$	\$250,629	C\$	\$332,079	US\$	\$303,604	C\$	\$411,944
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	US\$	\$30,330	C\$	\$40,186	US\$	\$34,685	C\$	\$47,063
Income taxes payable		662		877		724		982
Current portion of lease liabilities		1,954		2,589		1,924		2,611
Current portion of deferred revenue		5,806		7,693		6,295		8,542
Current portion of long-term debt		2,125		2,816		21,588		29,292
Convertible debentures		38,196		50,609		35,655		48,379
Derivative liability		2,290		3,034		1,316		1,786
		81,363		107,804		102,187		138,655
Non-current liabilities								
Deferred revenue		621		823		2,022		2,744
Long-term lease liabilities		5,727		7,588		7,116		9,655
Long-term debt		17,312		22,938		-		-
Deferred compensation liabilities		945		1,252		862		1,169
Deferred income tax liabilities		1,221		1,618		1,519		2,061
		25,826		34,219		11,519		15,629
TOTAL LIABILITIES		107,189		142,023		113,706		154,284
Shareholders' equity								
Capital stock		313,738		427,155		401,248		546,482
Contributed surplus		126,129		171,826		37,545		50,958
Accumulated other comprehensive income		15,652		14,356		15,928		16,457
Deficit		(312,079)		(423,281)		(264,823)		(356,237)
		143,440		190,056		189,898		257,660
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	US\$	\$250,629	C\$	\$332,079	US\$	\$303,604	C\$	\$411,944

Notes to Consolidated Financial Statements

Years ended December 31, 2024 and 2023

(in thousands and in United States dollars, except share and per share amounts, unless otherwise stated)

30. EFFECT OF THE CHANGE IN PRESENTATION CURRENCY (continued)

	Year ended December 31, 2023	
	USD (restated, note 2)	Previously reported in CAD
Operating activities:		
Net loss from continuing operations	US\$ (\$32,407)	C\$ (\$43,802)
Add (deduct) non-cash items:		
Stock-based compensation expense	1,246	1,688
Depreciation and amortization	11,709	15,800
Foreign exchange (gain) loss	1,264	1,732
Other income	(717)	(996)
Impairment losses	2,181	2,967
Loss on disposal	2,750	3,741
Deferred and non-cash income tax expense	9,718	9,176
Embedded derivatives	11	14
Change in fair value of derivative liability	891	1,248
Non-cash interest expense	2,117	2,850
Net change in non-cash working capital balances	(12,784)	(17,016)
Cash used in continuing operations	(14,021)	(22,598)
Net operating cash flows attributable to discontinued operations	(4,386)	(5,896)
Net cash used in operating activities	(18,407)	(28,494)
Financing activities:		
Dividends paid	(2,127)	(2,866)
Payment of lease liabilities	(2,259)	(3,058)
Repayment of long-term debt	(2,313)	(3,100)
Common shares issued for cash on the exercise of options	80	107
Cash used in continuing financing activities	(6,619)	(8,917)
Net financing cash flows attributable to discontinued operations	(100)	(135)
Net cash used in financing activities	(6,719)	(9,052)
Investing activities:		
Net proceeds from disposition of a subsidiary	32,688	43,578
Cash sold on disposition of a subsidiary	(8,189)	(10,751)
Proceeds from sale of property, plant and equipment	42	56
Purchase of property, plant and equipment	(1,637)	(2,214)
Dividend received from joint venture	617	934
Capitalized software costs	(3,338)	(4,497)
Cash (used in) generated from continuing investing activities	20,183	27,106
Net investing cash flows attributable to discontinued operations	1,194	1,603
Net cash (used in) generated from investing activities	21,377	28,709
Foreign exchange on cash held in foreign currencies	(2,423)	(899)
Net decrease in cash and cash equivalents	(6,172)	(9,736)
Cash and cash equivalents, beginning of year	48,905	66,357
Cash and cash equivalents, end of year	\$42,733	\$56,621

This page intentionally left blank.

This page intentionally left blank.

This page intentionally left blank.

DIRECTORS

Roxanne Anderson (1)
Chair of the Audit Committee

Pasquale (Pat) Deon Sr. (2,3)

Rusty Lewis (2, 3)
Chair of the Board

Bill Morris (1,2)
Chair of the Compensation Committee

Chuck Myers
Chief Executive Officer

Robin Saunders (2,3)

Pamela Steer (1, 3)

Anna Tosto (2, 3)
Chair of the ESG & Nominating
Committee

Member of (1) Audit Committee,
(2) Compensation Committee,
(3) ESG & Nominating Committee

LEADERSHIP TEAM

Chuck Myers
Chief Executive Officer

Morgan Demkey
Interim Chief Financial Officer and
VP Operations, Safety and Enforcement

Rick Strobridge
Chief Revenue Officer

Majorie Winters
General Counsel

Dave Sparks
EVP, Strategy

Ana Guerra
VP, People & Culture

Donna Bergan
VP, Marketing

Todd Venhaus
VP, Software

Ben Geeslin
VP, Strategy

Kevin Holbert
EVP, Tolling Business Development

Fred Baker
Sr. Director, Project Operations

Dan Orlic
Sr. Director of Information Security
and IT

STOCK EXCHANGE LISTINGS

Toronto Stock Exchange, Symbol: QTRH
OTCQX Best Market, Symbol: QTRHF

TRANSFER AGENT

Computershare Investor Services Inc.

PUBLIC FILINGS – SEDAR

Quarterhill's publicly filed documents are available at www.sedarplus.ca

AUDITORS

EY Canada

INVESTOR RELATIONS

Dave Mason
Tel: 1.416.247.9652
ir@quarterhill.com

HEAD OFFICE

200 Bay Street
North Tower
Suite 1200
Toronto, ON
M5J 2J2

WEBSITE

www.quarterhill.com



200 Bay Street, North Tower, Suite 1200
Toronto, ON M5J 2J2

www.quarterhill.com